Supreme Court, U.S.
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No.

IN THE

Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

AT&T CORP.,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

Title 35 U.S.C. § 271(f)(1) provides that it is an act of direct patent infringement to "suppl[y] . . . from the United States . . . components of a patented invention . . . in such manner as to actively induce the combination of such components outside of the United States."

In this case, AT&T Corp. alleges that when Microsoft Corporation's Windows software is installed on a personal computer, the programmed computer infringes AT&T's patent for a "Digital Speech Coder" system. AT&T sought damages not only for each Windows-based computer made or sold in the United States, but also, under Section 271(f)(1), for each computer made and sold abroad. Extending Section 271(f)—and consequently, the extraterritorial application of U.S. patent law—the Federal Circuit held that Microsoft infringed under Section 271(f)(1) when it exported master versions of its Windows software code to foreign computer manufacturers, who then copied the software code and installed the duplicate versions on foreign-manufactured computers that were sold only to foreign consumers. The questions presented are:

(1) Whether digital software code—an intangible sequence of "1's" and "0's"—may be considered a "component[] of a patented invention" within the meaning of Section 271(f)(1); and, if so,

(2) Whether copies of such a "component[]" made in a foreign country are "supplie[d] . . . from the United States."

PARTIES TO THE PROCEEDING AND RULE 29.6 STATEMENT

The caption contains the names of all the parties to the proceeding below.

Pursuant to this Court's Rule 29.6, undersigned counsel state that Microsoft Corporation ("Microsoft") has no parent company, and no publicly held company owns 10% or more of its stock.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner Microsoft Corporation respectfully submits this petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit.

OPINIONS BELOW

The court of appeals' opinion is reported at 414 F.3d 1366. App., *infra*, at 1a. The order denying Microsoft's petition for rehearing en banc is unreported. *Id.* at 39a. The opinion of the United States District Court for the Southern District of New York is unpublished but is electronically reported at 2004 WL 406640. *Id.* at 20a.

JURISDICTION

The district court had jurisdiction over respondent's claims pursuant to 28 U.S.C. §§ 1331 and 1338(a). The court of appeals had jurisdiction to review the district court's final judgment pursuant to 28 U.S.C. § 1295(a)(1). The court of appeals filed its opinion on July 13, 2005. It denied Microsoft's timely petition for rehearing en banc on October 20, 2005. On January 12, 2006, Justice Stevens extended the time within which to file a petition for certiorari to and including February 17, 2006. No. 05A606. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

Title 35 U.S.C. § 271(f)(1) provides:

§ 271. Infringement of patent

(f)(1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

STATEMENT

In the twenty-two years since it was enacted, this Court has never interpreted 35 U.S.C. § 271(f). For much of that time, the statute was viewed almost as a dead letter—a loophole-closing provision that worked. *See* Alan M. Fisch & Brent H. Allen, *The Application of Domestic Patent Law to Exported Software: 35 U.S.C. § 271(f)*, 25 U. PA. J. INT'L ECON. L. 557, 567 & n.46 (2004) (noting that, on account of the "sparse caselaw," commentators have suggested that Section 271(f) "serves little purpose at all"). In recent years, however, the Federal Circuit has articulated new and far-reaching applications for Section 271(f), holding that the statute encompasses much more than simply the export of the unassembled, physical parts of a patented machine, as was the case in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), the decision that prompted the legislative loophole-closing effort. In this case, the Federal Circuit held that Section 271(f) applies to the distribution of intangible software code to foreign computer manufacturers, concluding that digital software code constitutes a "component" of a programmed-computer invention and that *copies* of that digital code created abroad by *foreign* computer manufacturers "may be deemed 'supplied' from the United States." App., *infra*, at 4a. And in its most recent application of Section 271(f), the Federal Circuit reached the conclusion that the statute could prohibit "suppl[ying]" a "component" of a patented *process*. *See Union Carbide Chems. & Plastics Tech. Corp. v. Shell Oil Co.*, 425 F.3d 1366 (Fed. Cir. 2005).

This case brings into focus a recurring judicial debate concerning whether patent laws—and in particular Section 271(f)—should be interpreted according to their plain meaning and legislative history, or whether—as the decision below holds—they "must . . . be interpreted in a manner that is appropriate to the technology at issue," so that the statutes might "remain effective." App., *infra*, at 10a. Although this Court has consistently resolved that debate in favor of the former position, *see Brown v. Duchesne*, 60 U.S. (19 How.)

183, 197 (1857), the Federal Circuit has determined to pursue a course that would take into account "advances in a field of technology . . . that developed after the enactment of" the statute. App., *infra*, at 10a. In so doing, the court of appeals disregarded fundamental canons of statutory construction, as well as this Court's repeated expressions of disfavor toward the extraterritorial application of U.S. law in the absence of a clear expression of contrary congressional intent. *See, e.g.*, *F. Hoffmann-LaRoche Ltd. v. Empagran S.A.*, 542 U.S. 155, 165 (2004). Because the "profound ramifications" (App., *infra*, at 22a) for innovating businesses multiply with each new lower-court effort to ensure that Section 271(f) remains "'responsive to the challenges of a changing world,'" (*id.* at 9a) this Court's interpretive guidance is now urgently needed.

1. ***The Nature of Software***

The decision below is premised on a commonly held misunderstanding of the nature, and thus the patentability, of software. In everyday usage, "software" is perceived as embodied in some kind of storage medium, such as a CD-ROM or a hard drive—as when one purchases a copy of Microsoft Word software on a CD-ROM. Similarly, "software" is often understood as operating on a computer and giving that computer certain functionality—as when a computer is loaded with Microsoft Excel software and used to create and manipulate a spreadsheet. Although prevalent, these uses of the word "software" are imprecise. By itself—that is, uncoupled from any storage medium or computer—software is nothing more than "a set of instructions, known as code, that directs a computer to perform specified functions or operations." *Fantasy Sports Props., Inc. v. Sportslines.com, Inc.*, 287 F.3d 1108, 1118 (Fed. Cir. 2002); *see also* 17 U.S.C. § 101 (defining a "computer program" as a "set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result"); UNITED STATES PATENT & TRADEMARK OFFICE, MANUAL OF PATENT EXAMINATION PROCEDURE ("MPEP") § 2106.IV.B.1(a) (8th ed. 2001) ("a

computer program is merely a set of instructions capable of being executed by a computer").

Computer programmers develop software by first authoring "source code"—human-readable commands to the computer—in a computer language such as BASIC, FORTRAN, or C++. *See Gates Rubber Co. v. Bando Chem. Indus., Ltd.*, 9 F.3d 823, 835 (10th Cir. 1993). That source code is then run through a compiler that translates the human-readable source code into computer-readable "object code," which is expressed in the binary digital language of "0's" and "1's." Each digit instructs the computer to open or close one of the millions of switches in its central processing unit. It is the "opening and closing of the interconnected switches" that "creates electrical paths . . . that cause [the computer] to perform the desired function." *WMS Gaming Inc. v. Int'l Game Tech.*, 184 F.3d 1339, 1348 n.3 (Fed. Cir. 1999). The object code is thus nothing more than a complex set of digital commands that instruct a computer to align its circuits in a particular manner to achieve a particular functionality. In this sense, software code is not unlike the pattern of perforations in a player piano music roll, with each unique pattern of perforations generating, when run on a player piano (*i.e.*, hardware), a unique composition of music. Just as each perforation causes the piano to strike a particular string, each "1" or "0" of software code instructs a computer to close or open, respectively, a particular switch. *See generally White-Smith Music Publ'g Co. v. Apollo Co.*, 209 U.S. 1, 9-10 (1908) (describing the mechanics of a player piano). Like the perforations in a music roll, software code is design information that reflects specific knowledge about how to make hardware perform certain operations.

The distinction between software as integrated on a computer or other storage medium (such as a CD-ROM), and software as design information, is critical. When digital software code (like the pattern of perforations in a piano roll) is embodied on a physical medium (the actual piano roll) or alters the circuitry of a computer in a particularly useful way, that medium or computer, as physically and functionally al-

tered by the software, may be a patentable invention. *See In re Alappat*, 33 F.3d 1526, 1545 (Fed. Cir. 1994) (en banc) (holding that a "general purpose computer programmed to carry out the claimed invention" was patentable as "a new machine, because a general purpose computer in effect becomes a special purpose computer once it is programmed to perform particular functions pursuant to instructions from program software"); *see also* MPEP § 2106.IV.B.1(a); *cf. Alappat*, 33 F.3d at 1554 (Archer, C.J., concurring in part and dissenting in part) (recognizing that, under *Alappat*, a music roll with perforations embodying a new song could be patentable). In contrast, software code alone (the particular sequence of "1's" and "0's")—like the arrangement of holes to be punched into the music roll of a player piano—is neither a "process" nor a "machine, manufacture, or composition of matter." 35 U.S.C. § 101. Thus, although software code may be copyrightable, *see, e.g.*, *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1248 (3d Cir. 1983), it is not itself patentable.

Contrary to the Federal Circuit's conviction that, "[w]ithout question, software code alone qualifies as an invention eligible for patenting," App., *infra*, at 4a (quoting *Eolas Techs. Inc. v. Microsoft Corp.*, 399 F.3d 1325, 1339 (Fed. Cir.), *cert. denied*, 126 S. Ct. 568 (2005)), the Patent and Trademark Office has explained that "a claim for a computer program, without the computer-readable medium needed to realize the computer program's functionality," is unpatentable because computer programs are neither "physical things" nor "acts being performed." MPEP § 2106.IV.B.1(a). Accordingly, the duplication of software code can itself never constitute an act of patent infringement. *See* 35 U.S.C. § 271(a) (limiting infringement actions to the manufacture, use, sale, or importation of a "patented invention"). At stake in this case is Microsoft's right to export digital software code—a sequence of "1's" and "0's"—to foreign companies that duplicate the code and install it on foreign-manufactured computers for sale in foreign markets.

2. *Microsoft's Distribution of Windows Software in Foreign Markets*

At its headquarters in Redmond, Washington, Microsoft designs, authors, and tests software, including the object code comprising the Windows operating system. App., *infra*, at 45a. Today, most computer systems sold to consumers come with the Windows object code "pre-installed" by the computer manufacturer onto the computer's hard drive. In addition to household American names such as Dell and Compaq, Microsoft does business with numerous computer manufacturers in foreign nations. These foreign manufacturers assemble their computer systems from physical parts—central processors, hard drives, keyboards, monitors, etc.—manufactured around the world, and the parties have stipulated that none of those physical parts is obtained from Microsoft. App., *infra*, at 47a. Once the computer system is fully assembled, the computer manufacturer "installs" Windows onto the computer's hard drive.

In foreign markets, as elsewhere, Microsoft distributes its Windows software to computer manufacturers by transmitting master copies of the Windows program, *i.e.*, a copy of the computer-readable, digital object code that instructs computers to perform the functions associated with the Windows operating system. Microsoft transmits the Windows object code to manufacturers either on a "golden master disk" or in an encrypted electronic transmission. App., *infra*, at 45a-46a. From that single master version, a manufacturer produces numerous duplicate copies. *Id.* Those copies—but "never" the master version of the object code transmitted by Microsoft—are then installed on foreign-manufactured computers. *Id.* at 45a. "Installation" is simply an act of duplication; a computer reads software code from the medium on which it is stored (usually, a disk or a host computer's hard drive) and scrivens the code onto the new computer's storage medium (typically, a hard drive). *See Stenograph L.L.C. v. Bossard Assocs., Inc.*, 144 F.3d 96, 100 (D.C. Cir. 1998) ("installation of software onto a computer results in 'copying'"). The digital software code actually "installed" on the

foreign-manufactured computers is thus a second-generation copy of the digital software code transmitted from the United States—a foreign-made copy of a foreign-made copy of the original. *See Union Carbide Chems. & Plastics Tech. Corp.*, 425 F.3d at 1379 (citing the decision below as concerning "exportation of a 'master' computer readable disc that was further copied abroad, with the copies installed as software on assembled computers").

3. *AT&T's Patent Infringement Action*

AT&T sued Microsoft in district court alleging that computers running the Windows operating system infringe AT&T's United States Reissue Patent 32,580 ("the '580 patent"), which claims a Digital Speech Coder system. App., *infra*, at 44a-45a. AT&T's patented system is comprised of a computer programmed with a "speech codec"—a program that is capable of compressing and decompressing digitally recorded speech—a microphone, and a speaker. *Id.* at 3a. The microphone is used to input speech that the speech-codec-equipped computer can digitize, compress, decompress, and reproduce through the speaker. AT&T does not hold a patent on the speech codec itself because, as described above, standing alone, software code is not patentable. AT&T thus alleged that computers programmed with Windows infringe its patent by enabling the user, through Windows' own speech codecs, to record, store, and play back speech in a manner substantially similar to that described in the '580 patent.

Microsoft stipulated that, by selling copies of its Windows software to manufacturers of computers that are ultimately manufactured, used, or sold in the United States, it induced those computer manufacturers to infringe the '580 patent. 35 U.S.C. § 271(b); *see also* App., *infra*, at 42a. AT&T further contended that, under 35 U.S.C. § 271(f)(1), it was also entitled to damages for every Windows-based computer manufactured *outside* the United States. AT&T argued that the Windows object code constitutes a "component" of AT&T's patented Digital Speech Coder system and that the

foreign-made copies of that object code installed on the foreign-manufactured computers were, in fact, "supplie[d]" by Microsoft "from the United States." App., *infra*, at 46a.

Microsoft moved for partial summary judgment on the Section 271(f) question, arguing that Microsoft's object code was intangible information and thus could not be considered a "component[] of a patented invention" because, among other reasons, information cannot be "combin[ed]" with other objects in the manner required by the statute. App., *infra*, at 24a. And even if object code could be a "component[] of a patented invention," Microsoft argued, under no circumstances had Microsoft "supplie[d]" the foreign-manufactured copies. Microsoft "supplie[d] . . . from the United States" only the golden master disks and encrypted transmissions embodying the master versions of the Windows object code (*id.* at 47a)—neither of which was ever "combin[ed]" in a foreign-manufactured computer.

The district court denied Microsoft's motion for partial summary judgment. App., *infra*, at 22a. Finding "no limitation of the term 'components,'" that would exclude "intangible information," the court held that object code could constitute a "component[] of a patented invention" within the meaning of Section 271(f). *Id.* at 31a (citing *Moore U.S.A. Inc. v. Standard Register Co.*, 144 F. Supp. 2d 188, 195 (W.D.N.Y. 2001) (holding blueprints of a patented envelope to be a "component" of that invention)). The district court reasoned that this broad interpretation was necessary to account for recent technological developments, explaining that "excluding protection for inventions using software would not be responsive to the challenges of a changing world." *Id.* at 32a (internal quotation marks omitted).

The district court further held that Microsoft had "supplie[d] . . . from the United States" each of the foreign-made copies of Windows "'even though they never touched U.S. soil.'" App., *infra*, at 35a (internal quotation marks omitted). The court reached the conclusion that each foreign-made copy is actually "originally manufactured in the United

States" because "replication of the object code abroad" is different in kind from the "manufactur[e] . . . of it . . . abroad." *Id.* at 35a. The district court therefore concluded that Microsoft was liable under Section 271(f) for each foreign-manufactured copy of the Windows object code installed on a foreign-assembled computer. *Id.* at 38a.

The parties thereafter stipulated to the entry of final judgment in favor of AT&T. App., *infra*, at 41a. The parties agreed that the '580 patent "is enforceable and not invalid" and that, under the district court's interpretation of Section 271(f), Microsoft was liable for Windows-programmed computers manufactured outside the United States. *Id.* at 42a. The stipulated judgment, however, expressly preserved Microsoft's right to challenge on appeal the district court's interpretation of Section 271(f) based on a set of stipulated facts. *Id.* at 43a.

4. *The Decision Below*

a. A divided panel of the Federal Circuit affirmed. App., *infra*, at 11a. In determining whether intangible object code can constitute a "component[] of a patented invention" capable of being "combin[ed]" with other components within the meaning of Section 271(f), the panel majority relied upon the Federal Circuit's holding in *Eolas Technologies*, 399 F.3d 1325, which was decided while Microsoft's appeal was pending. *Eolas* held that object code can be a "component[] of a patented invention" because, in the *Eolas* panel's view, Section 271(f) is not expressly limited "to 'machine' components or 'structural or physical' components. Rather every component of every form of invention deserves the protection of section 271(f)." *Id.* at 1339. The *AT&T* panel adopted the *Eolas* court's conclusion without expanding upon its analysis. App., *infra*, at 4a. Neither the panel below, nor the decision on which it relied, ever explained how intangible information—a sequence of "0's" and "1's"—can be "combin[ed]" with tangible objects to create a patented product.

The panel majority further concluded that Microsoft was liable under Section 271(f) for each foreign copy of the Windows object code traceable to the golden master disks and electronic transmissions shipped from the United States. App., *infra*, at 7a. The court held that each of these foreign-made copies had "essentially been supplied from the United States" because "[c]opying . . . is part and parcel of software distribution" and therefore, "for software 'components,' the act of copying is subsumed in the act of 'supplying.'" *Id.* at 6a, 7a; *see also id.* at 7a ("It is inherent in the nature of software that [it] . . . may be replicated."). In reaching this conclusion, the court candidly acknowledged that it was interpreting Section 271(f) to account for "the realities of software distribution" and to ensure that the statute "remain[s] effective" in a rapidly changing world. *Id.* at 7a, 10a. A conclusion that foreign-made copies were not supplied from the United States, the panel majority asserted, "would permit[] a technical avoidance of the statute by ignoring advances in a field of technology . . . that developed after the enactment of § 271(f)" and "would emasculate § 271(f) for software inventions." *Id.* at 6a n.2, 10a. The panel majority accorded no significance to the ready availability of foreign patents to protect AT&T from acts of foreign infringement, finding it more appropriate to "construe our statutes irrespective of the existence or nonexistence of foreign patents." *Id.* at 6a n.2.

b. Judge Rader dissented. Although Judge Rader agreed that the Federal Circuit's recent decision in *Eolas* was controlling as to the issue of whether software code could be a "component[] of a patented invention," he disagreed with the majority's conclusion that the foreign-manufactured copies of the Windows object code had been "supplie[d] . . . from the United States." App., *infra*, at 11a. Judge Rader rejected the panel majority's contention that the "act of copying is subsumed in the act of 'supplying,'" *id.* at 6a, finding such reasoning to be contrary to the "ordinary meaning of 'supplies.'" *Id.* at 12a. The necessary consequence of the panel majority's holding, Judge Rader recognized, was to "pro-

vide[] extraterritorial expansion to U.S. law by punishing under U.S. law 'copying that occurs abroad.'" *Id.* at 12a. The majority opinion was flawed, Judge Rader continued, because it "holds Microsoft liable for the activities of *foreign manufacturers making copies* of the patented component abroad" in the absence of a clear indication of Congress's intention to do so. *Id.* at 16a-17a. Judge Rader concluded that—rather than seeking to give extraterritorial effect to U.S. patent law—the proper course of action for AT&T would have been to "protect its *foreign* markets from *foreign* competitors by obtaining and enforcing *foreign* patents." *Id.* at 18a-19a (emphases added).

REASONS FOR GRANTING THE PETITION

This case presents a recurring question of vital importance to the U.S. software industry. The Federal Circuit's "recent[] exten[sion] of the meaning" of Section 271(f)(1) to include foreign-made copies of software code, *Union Carbide Chems. & Plastic Tech. Corp. v. Shell Oil Co.*, _ F.3d _, 2006 WL 47462, at *1 (Fed. Cir. Jan. 10, 2006) (Lourie, J., dissenting from denial of reh'g en banc), vastly expands the extraterritorial reach of U.S. patents involving software. As the Federal Circuit has enlarged the law, U.S. patents on programmed-computer inventions grant monopolies enforceable against American competitors not only as to computers manufactured or sold in the United States, but also as to computers made and sold abroad. This self-described extension of Section 271(f) eviscerated the well-established "right" of American software companies "to compete with an American patent holder in foreign markets," *Deepsouth Packing Co.*, 406 U.S. at 531, thereby exposing those businesses to potentially crippling liability—here, tripling Microsoft's infringement liability.[1] *See* App., *infra*, at 37a. If allowed to stand, the Federal Circuit's reformulation of Section

[1] Judge Lourie's description of the Federal Circuit's interpretation of Section 271(f) in *Eolas* and *AT&T* as a "recent[] exten[sion]" is particularly telling inasmuch as he authored the majority opinion in *AT&T*.

271(f) will undoubtedly compel American software companies to reevaluate decisions to locate their research-and-development facilities in the United States. And because the Federal Circuit's extension of the meaning of "component" cannot possibly be limited only to software, other American technology-based businesses that manufacture products overseas based on knowledge and designs conceived in the United States will find themselves at risk as well.

Nothing in the statutory text or legislative history of Section 271(f) even remotely suggests that it was intended to encompass foreign-made copies of software code or other design information. Responding to this Court's decision in *Deepsouth*, Congress enacted Section 271(f) in order to prevent American companies from circumventing the patent laws' proscription against "manufacture . . . of a patented invention" by shipping all the component parts of a patented product overseas for final assembly. Patent Law Amendments Act of 1984, Pub. L. No. 98-622, § 101, 98 Stat. 3383, 3383. But sending software code alone to foreign manufacturers is manifestly different in kind from the conduct that Congress addressed in the wake of *Deepsouth*. Software code is design information, and if design information could constitute a "component[] of a patented invention," then the export of blueprints, formulas, and methodologies—in other words, knowledge—would itself constitute an act of infringement, thereby giving U.S. patents global force and effect. The Federal Circuit's interpretation of the phrase "component[] of a patented invention" thus runs headlong into this Court's long-standing rule that the patent laws do not apply extraterritorially, *see Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 650 (1915), and the more general canon of construction that U.S. laws must not be given extraterritorial effect in the absence of a clear expression of congressional intent to reach foreign conduct, *see, e.g., Sale v. Haitian Ctrs. Council, Inc.*, 509 U.S. 155, 176 (1993).

Even if software code could constitute a "component[] of a patented invention" within the meaning of Section

271(f), the Federal Circuit's additional quantum leap to the conclusion that *copies* of U.S.-designed software made entirely *outside* the United States are, despite their foreign provenance, "supplie[d] . . . from the United States," amplifies the need for this Court's review. Like its interpretation of "component," the Federal Circuit's textually indefensible interpretation of "supplie[d]" broadly expands the extraterritorial reach of the U.S. patent laws. Indeed, if the Federal Circuit is correct that—at least where software is concerned—"the [foreign] act of copying is subsumed in the [domestic] act of 'supplying'" (App., *infra*, at 6a), then the Federal Circuit has indeed categorically excluded software companies from the "right of American companies to compete with an American patent holder in foreign markets." *Deepsouth Packing Co.*, 406 U.S. at 531. The Federal Circuit's excursion into foreign markets at once trenches upon Congress's authority to regulate foreign commerce and greatly reduces (if not entirely eliminates) the incentive for inventors to obtain patents in jurisdictions other than the United States. It thus threatens to disrupt foreign nations' patent law schemes and creates the possibility of retaliatory action and substantial international discord.

This Court has not previously found occasion to interpret Section 271(f), and its review is now urgently needed to restore the territorial limits that Congress placed on the U.S. patent laws. This case, which comes to this Court on stipulated facts and is final in all respects, presents an ideal vehicle for that review.

I. THIS CASE PRESENTS A RECURRING QUESTION OF VITAL IMPORTANCE TO THE U.S. SOFTWARE INDUSTRY.

The Federal Circuit's decision has "profound ramifications for . . . software manufacturers." App., *infra*, at 22a. Indeed, by casting aside its earlier holding that Section 271(f) does not proscribe the exportation of design information, *see Pellegrini v. Analog Devices, Inc.*, 375 F.3d 1113, 1117-18 (Fed. Cir. 2004), and extending Section 271(f) to encompass

foreign-made copies of such information, the Federal Circuit retroactively exposed American software companies—and other technology-based businesses—to potentially crippling infringement liability for foreign activities, and threatened their substantial investments in overseas manufacturing facilities built in reliance on the freedom to compete with patent holders in foreign markets that the patent laws and the decisions of this Court ordained. The gravity of the consequences attributable to the Federal Circuit's recent extension of Section 271(f) thus marks this case as one of exceptional importance, warranting this Court's review.

1. It is axiomatic that American patent laws generally are "not intended to[] operate beyond the limits of the United States." *Brown*, 60 U.S. (19 How.) at 195; *see also* 35 U.S.C. § 154(a)(1) ("Every patent shall . . . grant to the patentee . . . the right to exclude others from making . . . or selling the invention throughout *the United States*") (emphasis added). Accordingly, this Court has long recognized that U.S. patent laws afford no protection against efforts to practice a patented invention outside the territorial jurisdiction of the United States. *See Dowagiac Mfg. Co.*, 235 U.S. at 650 ("The right conferred by a patent under our law is confined to the United States and its Territories and infringement of this right cannot be predicated [on] acts wholly done in a foreign country.") (citation omitted); *see also Deepsouth Packing Co.*, 406 U.S. at 531 (acknowledging "the right of American companies to compete with an American patent holder in foreign markets"); *Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1251 (Fed. Cir. 2000) ("extraterritorial activities . . . are irrelevant"). Section 271(f), enacted specifically in response to this Court's decision in *Deepsouth*, places an eminently sensible, but intentionally quite narrow, limitation on that right.

Deepsouth held that a company was not liable for infringement for "manufactur[ing] . . . a patented invention . . . in the United States" where it manufactured all the component parts of a patented shrimp deveining machine in the United States and shipped those parts for final assembly to

foreign customers. 406 U.S. at 524. Because the final assembly occurred in a foreign country, the Court concluded that the defendant did not "manufacture" the patented machine within the United States and therefore did not infringe the patent. *Id.* at 527. The Court emphasized the territorially limited nature of the United States patent laws, finding that Section 271(a) "makes it clear that it is not an infringement to make or use a patented product outside of the United States." *Id.* Recognizing that its decision might be viewed as opening a loophole in the patent laws, the *Deepsouth* Court invited Congress to provide a "clear . . . indication of intent to extend the patent privilege" to the export of components of a patented invention for assembly abroad. *Id.* at 532.

Congress responded by enacting Section 271(f) as part of the Patent Law Amendments Act of 1984, Pub. L. No. 98-622, § 101, 98 Stat. 3383, 3383. The text of the statute makes clear that it was directed toward the specific factual scenario at issue in *Deepsouth*—evasion of the proscription against "manufacture . . . of a patented invention" through the export of the patented product's *physical* parts for final assembly abroad. Section 271(f) prohibits the "suppl[y] . . . from the United States . . . [of] *components* of a patented invention . . . in such manner as to actively induce the *combination* of such components." 35 U.S.C. § 271(f)(1) (emphases added); *see also id.* § 271(f)(2) (referring to a "component" that is "uncombined in whole or in part").

Section 271(f) plainly was not intended to prohibit the export of intangible items. *See Union Carbide Chems. & Plastics Tech. Corp.*, _ F.3d at _, 2006 WL 47462, at *1 (Lourie, J., dissenting from denial of reh'g en banc) ("The whole tenor of [Section 271(f)] relates to *physical* inventions . . . .") (emphasis added). Absent congressional intent to the contrary, words in a statute must be given their ordinary meaning, *see Williams v. Taylor*, 529 U.S. 420, 431 (2000), and one does not ordinarily speak of a car's design specifications as being a "component" of the car. *See* WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY OF THE ENGLISH LANGUAGE 466 (1976) (defining "component" as "a con-

stituent part" or "ingredient"). But even if the term "component"—taken alone—could conceivably be construed to include the essential intangible predicates to the invention, such as design specifications, the statutory context makes clear that the term is limited only to those "components of a patented invention" capable of being "combin[ed]," 35 U.S.C. § 271(f)(1), and intangible information cannot be "combined" with other physical parts to form a "patented invention," *i.e.*, a "process, machine, manufacture, or composition of matter," *id.* § 101. Rather, "combination" most commonly refers to the assembly of tangible parts into a whole. *See* WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY OF THE ENGLISH LANGUAGE 452 (defining "combine" as "to join in physical or chemical union"); *see also Rotec Indus.*, 215 F.3d at 1252 n.2 (Section 271(f) "precludes competitors from avoiding liability simply by supplying components of a patented product from the United States and assembling them abroad").[2]

That is certainly the sense in which Congress used the term. Congress explained that Section 271(f)

> prevent[s] copiers from avoiding U.S. patents by supplying components of a patented product in this country so that the *assembly of the components* may be completed abroad. This proposal responds to the United States Supreme Court decision in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), concerning the need for a legislative solution to close a loophole in patent law.

Patent Law Amendments Act of 1984, 1984 U.S.C.C.A.N. 5827, 5828 (emphasis added); *see also* 130 Cong. Rec.

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[2] Returning to the player piano analogy, it is telling that this Court has recognized only the "perforated rolls"—never the arrangement of perforations—to be "component parts of the machine which executed the composition." *Goldstein v. California*, 412 U.S. 546, 565 (1973) (citing *White-Smith Music Publ'g Co.*, 209 U.S. at 18).

H12,231 (daily ed. Oct. 11, 1984) (statement of Rep. Kastenmeier) ("a product's patent cannot be avoided through the *manufacture* of *component parts* within the United States for *assembly* outside the United States") (emphases added). The legislative history's emphasis on the "assembly" of components and on the *Deepsouth* decision confirms that Congress was concerned with the specific facts of *Deepsouth* when enacting Section 271(f), not with the export of templates and design instructions used in foreign manufacturing.

This is further confirmed by the use of the term "component" in other parts of Section 271. The statute provides an exception from liability for the supply of a "component of a patented invention" that constitutes a "staple article or commodity of commerce." 35 U.S.C. § 271(f)(2); *see also id.* § 271(c). This Court, however, has never found anything other than a tangible product—an object of manufacture—to constitute a staple article of commerce. *See Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 490 n.41 (1984) ("The 'staple article of commerce' doctrine protects those who *manufacture products* incorporated into or used with patented inventions—for example, the paper and ink used with patented printing machines, or the dry ice used with patented refrigeration systems." (emphasis added; citations omitted)). Similarly, the Federal Circuit limited the term "component" as used in Section 271(g)—the companion provision to Section 271(f)—to refer only to "a physical product." *Bayer AG v. Housey Pharms., Inc.*, 340 F.3d 1367, 1372-73 (Fed. Cir. 2003).

2. For the twenty years that followed its enactment, the Federal Circuit interpreted Section 271(f) in a manner consistent with the statute's evident purpose and permitted application of the statute only to the exportation of physical parts of patented inventions. *See, e.g., Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 953 F.2d 1360, 1374 (Fed. Cir. 1991) (holding that Section 271(f) applies only in cases involving infringement of product patents and is not "implicated" in method patent cases). Indeed, as recently as 2004, the Federal Circuit specifically held that the statute did not prohibit

the export of design information to foreign manufacturers. *See Pellegrini*, 375 F.3d at 1117 (holding that Section 271(f) did not apply to circuit chips manufactured in a foreign country based upon instructions sent from the United States). At that time, the Federal Circuit explained that design instructions could not themselves be "components of a patented invention" because the phrase is limited to components that "are *physically present* in the United States and then either sold or exported" and "not simply to the supply of instructions or corporate oversight." *Id.* at 1117, 1118 (emphasis added).

Less than a year after *Pellegrini*, however, the Federal Circuit did an about-face, holding in *Eolas Technologies* that software object code could constitute a "component[] of a patented invention" within the meaning of Section 271(f). 399 F.3d at 1338-41. The *Eolas* panel reached this conclusion even though the Federal Circuit had previously recognized the fact that software object code is nothing more than a "set of instructions" expressed in the binary language of "1's" and "0's" that "directs a computer to perform specified functions." *Fantasy Sports Props., Inc.*, 287 F.3d at 1118. The *Eolas* panel reasoned that, inasmuch as software is a vital part of virtually all computer program inventions, software object code must be viewed as a component of such inventions. *See* 399 F.3d at 1339. The court distinguished its decision in *Pellegrini*, reasoning (unpersuasively) that the earlier decision's requirement that "components [be] physically supplied" did not mean that the components themselves had to be physical.

The *AT&T* panel majority compounded the *Eolas* court's error when it held that copies of Microsoft's object code manufactured in *foreign* countries had been "supplie[d] . . . from the United States." The Federal Circuit reached the improbable conclusion that, whenever a company exports digital software code, "[a]ll . . . resulting copies have essentially been supplied from the United States" because "the act of copying is subsumed in the act of supplying." App., *infra*, at 6a, 7a. The court's conclusion in this respect flew in the face

of the parties' stipulation that the "resulting copies" are never "physically present in the United States." *Id.* at 45a-46a.[3]

3. The Federal Circuit's textually insupportable extension of Section 271(f) effectively eliminates the right of American software companies to compete with patent holders in foreign markets. *See Deepsouth*, 406 U.S. at 530. When Congress enacted Section 271(f), it sought to end evasion of the patent law's proscription on manufacture of a patented invention in the United States, *see* 35 U.S.C. § 271(a), through the export of the patented product's physical component parts for assembly abroad. *See* 1984 U.S.C.C.A.N. at 5828. Congress, however, left completely intact the right to practice patented inventions outside of the United States. In foreign markets, a patentee's competitor remains free to duplicate or reverse-engineer inventions patented in the United States, or to assemble such inventions from foreign-manufactured component parts. If Microsoft wishes to make a Digital Speech Coder System in Japan, U.S. patent law supposedly poses no obstacle so long as the system's component parts are made abroad.

By holding that, for the software industry, "copying is subsumed in the act of supplying," the Federal Circuit has rendered it all but impossible for an American software firm to supply a software "component" from anywhere but the United States. *But see Dewsnup v. Timm*, 502 U.S. 410, 419 (1992) (judicial interpretation of a statute should not "effect a major change" in the applicable law "that is not the subject of at least some discussion in the legislative history"). Unlike businesses that may compete with a patent holder in a foreign market by manufacturing its American-designed components abroad, Microsoft and other American software companies

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[3] The panel majority's conclusion thus disregarded not only *Pellegrini* but also the Federal Circuit's decision in *Rotec*, 215 F.3d 1246, which held that a defendant had not "supplie[d]" "components" of a patented river dam construction device for purposes of Section 271(f) because the components were not manufactured in the United States. *Id.* at 1258.

may do so only if they actually *author* the software source and object codes outside the United States. Of course, at that point, they are no longer American businesses.

American software firms thus now face the daunting—and unforeseen—prospect of being saddled with massive infringement awards based upon the transmission of their U.S.-designed software code to foreign manufacturers who install replicated versions of the code on foreign-assembled computers for sale in foreign markets—conduct that until the Federal Circuit's sudden repudiation of *Pellegrini* was perfectly lawful. Indeed, in *Eolas*, the newly discovered theory of liability under Section 271(f) accounted for 64% of the jury's subsequently vacated $520 million infringement award. *See* Petition for a Writ of Certiorari at 4, *Eolas Techs.* (No. 05-288); *see also* Bruce A. Lehman et al., *Overseas Stretch*, LEGAL TIMES, July 11, 2005, at 525 (explaining why *Eolas* "goes too far").

This looming threat of crippling global liability places American software firms at a substantial disadvantage to their foreign competitors. American firms—should they trip over one of the thousands of unexploited patents comprising the modern "patent thicket"—are potentially liable for worldwide sales of the infringing product, while their foreign competitors are at risk only for the infringing products sold within the United States. The decision below thus effectively imposes a penalty (in the form of a massively enhanced litigation risk) on the location of software research-and-development facilities in the United States. Particularly for new software ventures, this operates as a powerful disincentive against locating in the United States. Indeed, the sudden onset of global infringement liability may drive some American software firms out of business altogether, thereby retarding technological progress and imperiling the United States' position as the global leader in high-technology innovation.

Moreover, because the Federal Circuit's expansive reinterpretation of the phrase "component[] of a patented invention" cannot in any principled fashion be cabined to software

object code, other businesses whose products derive their value principally from their design will be similarly threatened. As discussed above, software code is nothing more than design information that instructs a computer to arrange its circuits in a particular way. There are multitudes of other products whose designs are alone what makes the products new and useful, and, as the *Eolas* panel recognized, patent law must "accord[] the same treatment to all forms of invention." *Eolas Techs.*, 399 F.3d at 1339. Semiconductors, for example, are simply silicon wafers with a circuit design imprinted upon them—not unlike the design information at issue in *Pellegrini*. It is only the characteristics of that circuit design that make a semiconductor patentable. Semiconductor circuit designs are embodied in "masks," which are templates used to transfer the patterns onto blank silicon wafers. Under the Federal Circuit's reasoning, a semiconductor company that designs a "mask" in the United States and ships it to a foreign manufacturer for use as a template to produce finished semiconductors would be liable for patent infringement, even though no physical part of the circuit had been "supplie[d] ... from the United States." 35 U.S.C. § 271(f)(1).

Similarly, biotechnology companies patent cell lines. It is the particular arrangement of DNA that makes a cell line new or useful. According to the Federal Circuit, if an American company transmitted the genetic code of the cell line (or perhaps a single cell) overseas in order to facilitate the replication of the cell line, that company would have "supplie[d]" a "component" of the patented cell line even though the allegedly infringing cells were never physically present in the United States. Or outside the high technology sector, if one held a patent on an automobile tire on the basis of the characteristics of the tire's tread design and an American company shipped abroad a mold that embodied the tread design (which is to say, all of the traits that make the patented invention new and useful), under the Federal Circuit's view, that company, too, would be an infringer.

In this manner, the Federal Circuit's expansive interpretation of the phrase "component[] of a patented invention"—particularly when coupled with its counter-textual construction of "supplie[d]"—opens a limitless door of unintended consequences and eviscerates the ability of technology-based companies to compete with patent holders in foreign markets. The decision below thus jeopardizes the billions of dollars of investments that American high-technology businesses have made in overseas manufacturing facilities that the Federal Circuit now considers to be domestic infringement operations. These companies must now reevaluate their business models at potentially enormous cost. *See* Rosemarie Ham Ziedonis, *Patent Litigation in the U.S. Semiconductor Industry*, *in* PATENTS IN THE KNOWLEDGE-BASED ECONOMY 191 (Wesley M. Cohen & Stephen A. Merrill eds., 2003) (noting that a facility for producing computer chips can cost more than $1 billion to build and equip). It is for this and similar reasons that this Court recently emphasized that "courts must be cautious before adopting changes that disrupt the settled expectations of the inventing community." *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 739 (2002).

Because this case arises under the Federal Circuit's patent jurisdiction, its expansion of Section 271(f)'s scope has national application. The profound economic and technological consequences of this decision warrant this Court's review.

II. THE DECISION BELOW CONFLICTS WITH THIS COURT'S DECISIONS RESTRICTING THE EXTRATERRITORIAL APPLICATION OF U.S. LAW.

By eliminating the ability of American software companies—and other technology-based firms—to compete with American patent holders in foreign markets, the decision below exponentially expands the extraterritorial reach of U.S. patent law. Yet the presumption against the extraterritorial application of U.S. law is deeply rooted in this Court's juris-

prudence. Indeed, in *Empagran*, 542 U.S. 155, this Court recently emphasized that—in order to prevent U.S. encroachments on foreign sovereignty—courts must adopt *any* reasonable construction of a statute that *avoids* extraterritorial application. *Id.* at 174. Because Congress did not clearly express its intention for Section 271(f) to encompass intangible materials—let alone foreign-manufactured copies of intangible materials—the Federal Circuit's conclusion squarely conflicts with this Court's precedent restricting the extraterritorial reach of U.S. law.

1. It is a "longstanding principle of American law that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States." *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991) (internal quotation marks omitted). This presumption against extraterritoriality is grounded in comity considerations and "serves to protect against unintended clashes between our laws and those of other nations which could result in international discord." *Id.*; *see also Foley Bros. v. Filardo*, 336 U.S. 281, 286 (1949) (holding that a statute imposing an eight-hour work day did not apply to Americans employed overseas because "labor conditions . . . are the primary concern of [the] foreign country" in which the workers are employed).

The presumption against extraterritoriality also reflects the fact that the legislative and executive branches are much better equipped than the judiciary to evaluate the complex foreign policy considerations raised by the extraterritorial application of U.S. law. Indeed, decisions affecting international relations are "of a kind for which the Judiciary has neither aptitude, facilities nor responsibility." *Chi. & S. Air Lines, Inc. v. Waterman S.S. Corp.*, 333 U.S. 103, 111 (1948).

Because of these comity considerations and separation-of-powers concerns, courts must not construe a U.S. law as encompassing foreign conduct "unless . . . the affirmative intention of the Congress" to apply a law extraterritorially is

"clearly expressed" in the statutory language. *Arabian Am. Oil Co.*, 499 U.S. at 248 (internal quotation marks omitted); *see also Benz v. Compania Naviera Hidalgo, S. A.*, 353 U.S. 138, 147 (1957) (holding that the Labor Management Relations Act did not apply to a labor dispute involving a foreign ship operated by foreign seamen because Congress had not "clearly expressed" its "affirmative intention" to reach such conduct).

Even where Congress has unequivocally expressed its intention to give a U.S. law extraterritorial effect, the parameters of that authorization must be strictly construed in light of the general presumption against extraterritoriality. In *Empagran*, 542 U.S. 155, for example, this Court concluded that the Sherman Act—which generally has been held to apply to foreign conduct—did not provide a cause of action for plaintiffs harmed by foreign price-fixing activity that caused both domestic and independent foreign effects because the plaintiffs were harmed exclusively by the conspiracy's foreign effects. *Id.* at 173. The Court expressed concern that the availability of such a suit would "create[] a serious risk of interference with a foreign nation's ability independently to regulate its own commercial affairs." *Id.* at 165. The Court therefore held that, even if the more natural reading of the statute encompassed the foreign activity, comity considerations compelled a contrary conclusion because the statutory language did not "show that [the Court] *must* accept th[e] reading" that provided for an extraterritorial effect. *Id.* at 174. The Court instructed that, as long as "the statute's language reasonably permits an interpretation consistent with" the general presumption that Congress seeks to avoid interference with other nations' sovereignty, a court "should adopt it." *Id.*

2. The presumption against the extraterritorial application of U.S. law is especially strong in the patent context because the application of U.S. patent law to foreign commercial activity intrudes upon other nations' intellectual property schemes and thereby creates a significant risk of international discord. This Court has thus long recognized that U.S. patent

laws generally are "not intended to[] operate beyond the limits of the United States." *Brown*, 60 U.S. (19 How.) at 195; *see also Dowagiac Mfg. Co.*, 235 U.S. at 650.

Indeed, the proposition that U.S. patent law generally does not possess extraterritorial effect has been clear since at least the mid-nineteenth century, when this Court held in *Brown* that U.S. patent law did not extend to a French-built vessel that sailed into an American port. 60 U.S. (19 How.) at 198-99. The Court explained that applying U.S. patent law to foreign-manufactured goods would "embarrass the treaty-making power in its negotiations with foreign nations, and . . . interfere with the legislation of Congress when exercising its constitutional power to regulate commerce." *Id.* at 197.

The territorial limits on U.S. patent law not only reflect the comity and separation-of-powers concerns that animate the general presumption against extraterritoriality, but are also an expression of "this Nation's historical antipathy to monopoly and of repeated congressional efforts to preserve and foster competition." *Deepsouth*, 406 U.S. at 530 (footnote omitted). Patent law strikes a delicate balance between the objectives of promoting competition and rewarding innovation. Thus, although the issuance of a patent precludes competitors from making, using, or selling the patented invention *in the United States*, the patent does not undermine the "right of American companies to compete with an American patent holder in *foreign* markets." *Id.* at 531 (emphasis added). "To the degree that the inventor needs protection in markets other than those of this country," the inventor must "seek it abroad through patents secured in countries where his goods are being used." *Id.*[4]

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[4] Legal commentators have also recognized the dangers inherent in giving extraterritorial effect to U.S. patent law. *See, e.g.*, Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 VA. J. INT'L L. 505, 584 (1997) (arguing that the territorial limits on U.S. patent law should be preserved because "the extraterritorial application of

3. The Federal Circuit's holding completely disregards this presumption against the extraterritorial application of U.S. law. Indeed, the Federal Circuit failed even to acknowledge the presumption or this Court's decisions applying it. In light of the plain meaning of the statutory language, the context in which the term "component" appears, and the legislative history, it plainly cannot be said that Section 271(f) constitutes the requisite "clear[] express[ion]" of Congress's intent to so increase the potency of United States patents as to proscribe foreign-made copies of software code and other product designs shipped from the United States. *Arabian Am. Oil Co.*, 499 U.S. at 248 (internal quotation marks omitted). Although Section 271(f) represents a clear expression of Congress's intent to extend U.S. patent law to proscribe the act of shipping physical components from the United States for assembly overseas, the foreign-made copies of the Windows object code were not, as a factual matter, shipped from the United States. And "[n]othing in § 271(f) or its enacting documents expresses an intent to attach liability to manufacturing activities occurring wholly abroad." App., *infra*, at 16a (Rader, J., dissenting). Moreover, even if the Federal Circuit's construction were the better reading of Section 271(f), the statutory language certainly does not foreclose the interpretation offered by Microsoft. The decision below thus would still contravene this Court's rule that courts "should adopt" any interpretation of a "statute's language [that] reasonably permits" the conclusion that Congress intended to avoid the extraterritorial application of U.S. law. *Empagran S. A.*, 542 U.S. at 174.[5]

[Footnote continued from previous page]

U.S. laws into other countries is arguably more parochial than global and more likely to undermine rather than promote international cooperation").

[5] The Federal Circuit's conclusion also conflicts with decisions in which other circuits have faithfully applied the presumption against extraterritoriality by refusing to give extraterritorial effect to statutes that lacked the requisite clear expression of congressional intent. *See, e.g.*,

In holding that Section 271(f) applies to foreign-manufactured copies of software, the Federal Circuit acknowledged that it was seeking to account for "advances in a field of technology . . . that developed *after* the enactment of § 271(f)." App., *infra*, at 10a; *see also id.* ("Section 271(f), if it is to remain effective, must therefore be interpreted in a manner that is appropriate to the nature of the technology at issue."). When the Federal Circuit took it upon itself to ensure that Section 271(f) "remain[s] effective," *id.*, it arrogated to itself a legislative role that properly rests with Congress and disregarded this Court's admonition that words must "be interpreted as taking their ordinary, contemporary, common meaning *at the time Congress enacted the statute.*" *BedRoc Ltd., LLC v. United States*, 541 U.S. 176, 184 (2004) (internal quotation marks omitted; emphasis added). Indeed, this Court has expressly rejected judicial efforts to rewrite the text of existing patent laws to cover technological advancements not foreseen by Congress, and has explained that

> [d]ifficult questions of policy concerning the kinds of programs that may be appropriate for patent protection and the form and duration of such protection can be answered by Congress on the basis of current empirical data not equally available to this tribunal. It is our duty to construe the patent statutes *as they now read*, in light of our prior precedents, and we must proceed cautiously when we are asked to extend

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United States v. Javino, 960 F.2d 1137, 1143 (2d Cir. 1992) (holding that 26 U.S.C. § 5822, a provision of the National Firearms Act, does not apply to firearms made outside of the United States because "any statement by Congress contrary to th[e] presumption" against extraterritoriality was "absen[t]"); *Asplundh Tree Expert Co. v. NLRB*, 365 F.3d 168, 180 (3d Cir. 2004) (holding that the National Labor Relations Act does not apply to employees working temporarily outside the United States for United States employers because the court could "discover no clearly expressed congressional intention" to reach such extraterritorial activity).

> patent rights into areas wholly unforeseen by Congress.

Parker v. Flook, 437 U.S. 584, 595-96 (1978) (emphasis added; footnote omitted); *see also Brown*, 60 U.S. (19 How.) at 197 (patent laws "should not be strained by technical constructions to reach cases which Congress evidently could not have contemplated").[6]

4. The Federal Circuit's conclusion that Section 271(f) encompasses intangible materials and foreign-manufactured duplicates will disrupt foreign countries' intellectual property law systems by subjecting foreign manufacturers to the requirements of U.S. patent law. The possibility of such "interference with a foreign nation's ability independently to regulate its own commercial affairs" is one of the primary reasons that this Court has been extremely cautious about extending U.S. law to foreign conduct. *Empagran S.A.*, 542 U.S. at 165; *see also Hartford Fire Ins. Co. v. California*, 509 U.S. 764, 815 (1993) ("this and other courts have frequently recognized that, even where the presumption against extraterritoriality does not apply, statutes should not be interpreted to regulate foreign persons or conduct if that regulation would conflict with principles of international law"); *Murray v. Schooner Charming Betsy*, 6 U.S. (2 Cranch) 64, 118 (1804) ("an act of Congress ought never be construed to violate the law of nations if any other possible construction remains").

The Federal Circuit expressly declined to afford *any* weight to the existence of foreign patent law, asserting that it "must construe our statutes irrespective of the existence or nonexistence of foreign patents." App., *infra*, at 6a n.2. The court's lack of regard for other nations' intellectual property

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[6] *See also Diamond v. Chakrabarty*, 447 U.S. 303, 319 (1980) (Brennan, J., dissenting) ("[W]e must be careful to extend patent protection no further than Congress has provided. In particular, were there an absence of legislative direction, the courts should leave to Congress the decisions whether and how far to extend the patent privilege into areas where the common understanding has been that patents are not available.").

law systems will likely foster retaliatory measures by foreign countries, including efforts to extend their own patent laws within the United States' borders. Contrary to the Federal Circuit's expansive notion of its judicial role, it is Congress—not the courts—that bears responsibility for making decisions with such significant repercussions for foreign relations and international commerce. As this Court has explained, Congress "alone has the facilities necessary to make fairly such an important policy decision where the possibilities of international discord are so evident and retaliative action so certain." *Benz*, 353 U.S. at 147.

III. THIS CASE PRESENTS THE IDEAL VEHICLE FOR AUTHORITATIVELY CONSTRUING SECTION 271(F).

In October 2005, this Court declined to review the Federal Circuit's holding in *Eolas* that intangible software code can constitute a "component[] . . . of a patented invention" under Section 271(f). *Microsoft Corp. v. Eolas Techs. Inc.*, 126 S. Ct. 568 (2005). *Eolas*, however, was in an interlocutory posture when the petition was filed because the Federal Circuit had vacated those portions of the district court's decision that rejected Microsoft's anticipation, inequitable conduct, and prior art defenses, and had remanded for further proceedings on those issues. 399 F.3d at 1341. Because the *Eolas* petition for certiorari thus did not arise from a final judgment on the merits, it was arguably ill-suited to addressing the question of Section 271(f)'s scope. *See Estelle v. Gamble*, 429 U.S. 97, 114 (1976) (Stevens, J., dissenting) (referring to the Court's "normal practice of denying interlocutory review"). Indeed, the opposition brief repeatedly emphasized the interlocutory nature of the case. *See* Brief in Opposition at 4, *Eolas* (No. 05-288) ("The case is . . . in a classically interlocutory posture, counseling denial of review for that reason alone.").

Unlike *Eolas*, this cases arises from a final judgment on the merits that the district court entered against Microsoft, and it therefore suffers from none of *Eolas*'s procedural

shortcomings. After the district court denied Microsoft's motion for partial summary judgment, the parties entered a stipulated judgment that held Microsoft liable for both domestic and foreign acts of infringement. App., *infra*, at 42a. The only question preserved for appeal is whether Microsoft is liable under Section 271(f) for Windows-based computers manufactured and sold outside the United States. Moreover, the parties have agreed to stipulated facts governing the Section 271(f) issue, *id.* at 44a, and there are no disputes about claim construction or patent enforceability. *Id.* at 42a (stipulating that the '580 patent "is enforceable and not invalid"). Because the legal issues are therefore clearly distilled, this case is the ideal vehicle for this Court to declare an authoritative construction of Section 271(f).

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted.

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February 17, 2006

APPENDIX

APPENDIX A

United States Court of Appeals,
Federal Circuit.

AT & T CORP.,
Plaintiff-Appellee,

v.

MICROSOFT CORPORATION,
Defendant-Appellant.

No. 04-1285

July 13, 2005

Stephen C. Neal, Cooley Godward LLP, of Palo Alto, California, argued for plaintiff-appellee. With him on the brief were Jonathan G. Graves and Nathan K. Cummings, of Reston, Virginia. Of counsel on the brief was Laura A. Kaster, AT & T Corp., of Bedminster, New Jersey.

Dale M. Heist, Woodcock Washburn LLP, of Philadelphia, Pennsylvania, argued for defendant-appellant. With him on the brief were David R. Bailey and Lynn B. Morreale. Of counsel on the brief were James H. Carter and James T. Williams, Sullivan & Cromwell LLP, of New York, New York, and Thomas Andrew Culbert, Microsoft Corporation, of Redmond, Washington.

John D. Vandenberg, Klarquist Sparkman, LLP, of Portland, Oregon, for amici curiae Wacom Technology Corporation, et al.

Frank E. Scherkenbach, Fish & Richardson P.C., of Boston, Massachusetts, for amici curiae Adobe Systems, Inc., et al. With him on the brief was Kurt L. Glitzenstein. Of counsel on the brief was Jennifer K. Bush, of San Diego, California.

Before MAYER, LOURIE, and RADER, Circuit Judges.

Opinion for the court filed by Circuit Judge LOURIE. Dissenting opinion filed by Circuit Judge RADER.

LOURIE, Circuit Judge.

Microsoft Corporation ("Microsoft") appeals from the judgment of the United States District Court for the Southern District of New York in favor of AT & T Corp. ("AT & T"), holding that Microsoft was liable for infringement of AT & T's United States Reissue Patent 32,580 under 35 U.S.C. § 271(f) for copies of the Windows® operating system that had been replicated abroad from a master version sent from the United States. *AT & T Corp. v. Microsoft Corp.*, No. 01-CV-4872 (S.D.N.Y. Mar. 5, 2004). We affirm.

BACKGROUND

To facilitate international distribution of its flagship product, Microsoft supplies a limited number of master versions of the Windows® software to foreign computer manufacturers and authorized foreign "replicators," who, pursuant to their licensing agreements with Microsoft, replicate the master versions in generating multiple copies of Windows® for installation on foreign-assembled computers that are then sold to foreign customers. The master versions are created in the United States and are sent abroad on so-called "golden master" disks or via electronic transmissions.

The master versions of Windows® thus exported incorporate certain speech codecs,[1] which, when installed on a computer, are alleged to infringe AT & T's '580 patent. During the course of AT & T's suit against Microsoft for patent infringement, Microsoft moved *in limine* to exclude evidence of purported liability under 35 U.S.C. § 271(f) arising from foreign sales of Windows®. In support of its motion, Microsoft argued that: (1) software is intangible information such that it could not be a "component" of a patented invention within the meaning of § 271(f); and (2) even if the Windows® software were a "component," no actual "components" had been "supplied" from the United States as required by § 271(f) because the copies of Windows® installed on the foreign-assembled computers had all been made abroad.

By stipulation, the parties subsequently converted Microsoft's motion *in limine* into a motion for partial summary judgment of noninfringement under § 271(f), which the district court denied on the basis that neither the jurisprudence surrounding § 271(f) nor its legislative history supported Microsoft's reading of the words "component" and "supplied." Reasoning that the patentability of software was well-established and that the statute did not limit "components" to tangible structures, the district court rejected Microsoft's argument that software could not be a "component" of a patented invention under § 271(f). As for copies made abroad from a master version sent from the United States, the district court ruled that such copies were not shielded from § 271(f) in light of the statute's purpose of prohibiting the circumvention of infringement through exportation. The parties there-

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[1] A "speech codec" is a software program that codes a speech signal into a more compact form, and decodes it back into a signal that sounds like the original. (Am. Compl. ¶ 14; J.A. 142).

after agreed to the entry of a stipulated final judgment holding Microsoft liable for infringement under § 271(f), while expressly reserving Microsoft's right to appeal that issue.

This appeal followed. We have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

DISCUSSION

On appeal, Microsoft argues that the district court erred in its determination of infringement under § 271(f), insisting that the master versions of the Windows® software that it exports for copying abroad are not "components" within the meaning of § 271(f). It also argues that liability under § 271(f) should not attach to the copies of Windows® made abroad because those copies are not "supplied" from the United States.

The first question, *i.e.*, whether software may be a "component" of a patented invention under § 271(f), was answered in the affirmative in *Eolas Techs. Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005), which issued while the instant appeal was pending. In that case, we held that "[w]ithout question, software code alone qualifies as an invention eligible for patenting," and that the "statutory language did not limit section 271(f) to patented 'machines' or patented 'physical structures,'" such that software could very well be a "component" of a patented invention for the purposes of § 271(f). *Id.* at 1339.

The remaining question, then, is whether software replicated abroad from a master version exported from the United States—with the intent that it be replicated—may be deemed "supplied" from the United States for the purposes of § 271(f). That question is one of first impression, the answer to which turns on statutory interpretation, an issue of law that we review *de novo*. *Romero v. United States*, 38 F.3d 1204, 1207 (Fed. Cir. 1994). The statute at issue, 35 U.S.C. § 271(f), provides that:

> (1) Whoever without authority *supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention*, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.
>
> (2) Whoever without authority *supplies or causes to be supplied in or from the United States any component of a patented invention* that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

35 U.S.C. § 271(f) (2000) (emphases added).

In its briefs, Microsoft maintains that no liability attaches under § 271(f) for foreign-replicated copies of Windows® because they are not "supplie[d] or cause[d] to be supplied in or from the United States." According to Microsoft, a foreign-replicated copy made from a master version supplied from the United States has actually been "manufactured" abroad by encoding a storage medium with the Windows® software. We disagree that no liability attaches.

When interpreting a statutory provision "[w]e start, as always, with the language of the statute," giving the words "their ordinary, contemporary, common meaning, absent an indication Congress intended them to bear some different import." *Williams v. Taylor*, 529 U.S. 420, 431, 120 S.Ct. 1479, 146 L.Ed.2d 435 (2000) (internal quotation marks and citations omitted). As the statute sets forth no specific definition of the word "supplied," we accordingly look to its "ordinary, contemporary, common meaning," which is necessarily context-dependent. In the present case, § 271(f) is being invoked in the context of software distribution. Therefore, in order for us to properly construe the "supplie[d] or cause[d] to be supplied in or from the United States" requirement, we must look at the way software is typically "supplied."

Given the nature of the technology, the "supplying" of software commonly involves generating a copy. For example, when a user downloads software from a server on the Internet, the server "supplies" the software to the user's computer by transmitting an exact copy. Uploading a single copy to the server is sufficient to allow any number of exact copies to be downloaded, and hence "supplied." Copying, therefore, is part and parcel of software distribution. Accordingly, for software "components," the act of copying is subsumed in the act of "supplying," such that sending a single copy abroad with the intent that it be replicated invokes § 271(f) liability for those foreign-made copies.[2]

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[2] The dissent grounds its disagreement on a purported distinction between the statutory term "supplies" and such terms as "copying," "replicating," or "reproducing." Whatever the distinction in other contexts, we are interpreting a statutory term in the context of the facts before us. To decide otherwise would emasculate § 271(f) for software inventions. Obtaining foreign patents would surely alleviate some avoidance of American law, but we

[Footnote continued on next page]

Indeed, Microsoft has taken full advantage of the replicable nature of software to efficiently distribute Windows® internationally. At the same time, however, Microsoft posits that § 271(f) liability should attach only to each disk that is shipped and incorporated into a foreign-assembled computer. *See* Tr. of Dec. 12, 2003 Hearing, at 16:10-17 (J.A. 359). We reject this theory of liability as it fails to account for the realities of software distribution. "[T]he appellate process is not a mere academic exercise," *Rosemount, Inc. v. Beckman Instruments, Inc.*, 727 F.2d 1540, 1543 (Fed. Cir. 1984), and we cannot disregard the nature of the relevant technology and business practices underlying a particular litigation. It is inherent in the nature of software that one can supply only a single disk that may be replicated—saving material, shipping, and storage costs—instead of supplying a separate disk for each copy of the software to be sold abroad. All of such resulting copies have essentially been supplied from the United States. Where there are competing interpretations of a statute that imposes liability for certain acts, an interpretation that allows liability to attach only when a party acts in an unrealistic manner is unlikely to be correct. *See Haggar Co. v. Helvering*, 308 U.S. 389, 394, 60 S.Ct. 337, 84 L.Ed. 340 (1940) ("A literal reading of [a statute] which would lead to absurd results is to be avoided . . . ."). We therefore reject Microsoft's reading of § 271(f).

We also reject Microsoft's argument that *Pellegrini v. Analog Devices, Inc.*, 375 F.3d 1113 (Fed. Cir. 2004), compels reversal. *Pellegrini* held that liability under § 271(f) may exist only where a component itself—as opposed to instructions for manufacturing the component or management

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[Footnote continued from previous page]

must construe our statutes irrespective of the existence or nonexistence of foreign patents.

oversight—has been "supplie[d] or cause[d] to be supplied in or from the United States." *Pellegrini*, 375 F.3d at 1118. In the present case, what is being supplied abroad is an actual component, *i.e.*, the Windows® operating system, that is ready for installation on a computer to form an infringing apparatus—not instructions to foreign software engineers for designing and coding Windows®. Thus, *Pellegrini* does not control this case.

Additionally, we cannot accept Microsoft's suggestion that software sent by electronic transmission must be treated differently for purposes of § 271(f) liability from software shipped on disks, *see* Tr. of Dec. 12, 2003 Hearing, at 8:8-17 (J.A. 351), as it would amount to an exaltation of form over substance. Liability under § 271(f) does not depend on the medium used for exportation: a disk is merely a container that facilitates physical handling of software, much like bottles for liquids or pressurized cylinders for gases. As we emphasized in *Eolas*, the applicability of § 271(f) is not limited to "structural or physical" components. *Eolas*, 399 F.3d at 1339 ("[E]very component of every form of invention deserves the protection of section 271(f)."). Therefore, whether software is sent abroad via electronic transmission or shipped abroad on a "golden master" disk is a distinction without a difference for the purposes of § 271(f) liability. Liability under § 271(f) is not premised on the mode of exportation, but rather the fact of exportation.

Our interpretation of "supplie[d] or cause[d] to be supplied in or from the United States" in the context of software comports with Congress's motivation for enacting § 271(f). It is a well-established principle that "[i]n expounding a statute, we must . . . look to the provisions of the whole law, and to its object and policy." *United States v. Heirs of Boisdore*, 49 U.S. (8 How.) 113, 122, 12 L.Ed. 1009 (1850).

In 1984, Congress enacted § 271(f) in response to the Supreme Court's ruling in *Deepsouth Packing Co. v. Laitram*

Corp., 406 U.S. 518, 92 S.Ct. 1700, 32 L.Ed.2d 273 (1972), that exposed a loophole in § 271 that allowed potential infringers to avoid liability by manufacturing the components of patented products in the United States and then shipping them abroad for assembly. As explained in the Congressional Record:

> [Section 271(f)] will prevent copiers from avoiding U.S. patents by supplying components of a patented product in this country so that the assembly of the components may be completed abroad. This proposal responds to the United States Supreme Court decision in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 92 S.Ct. 1700, 32 L.Ed.2d 273 (1972), concerning the need for a legislative solution to close a loophole in patent law.

H.R. 6286, Patent Law Amendments Act of 1984, 130 Cong. Rec. 28069 (Oct. 1, 1984). At the time of its enactment, § 271(f) was touted as a "housekeeping-oriented" measure, without which "the patent system would not be responsive to the challenges of a changing world and the public would not benefit from the release of creative genius." *Id.* However, it is clear from the legislative history that § 271(f), which "close[d] a loophole," was remedial in nature, such that it "should be construed broadly to effectuate its purposes." *Tcherepnin v. Knight*, 389 U.S. 332, 336, 88 S.Ct. 548, 19 L.Ed.2d 564 (1967). Congress obviously intended the statute to have an extraterritorial effect to the extent that the exportation was facilitated by acts in the United States, and the acts at issue here originating from the United States can be understood to be similarly within the meaning of the statute.

Were we to hold that Microsoft's supply by exportation of the master versions of the Windows® software—specifically for the purpose of foreign replication—avoids infringement, we would be subverting the remedial nature of

§ 271(f), permitting a technical avoidance of the statute by ignoring the advances in a field of technology—and its associated industry practices—that developed after the enactment of § 271(f). It would be unsound to construe a statutory provision that was originally enacted to encourage advances in technology by closing a loophole, in a manner that allows the very advances in technology thus encouraged to subvert that intent. Section 271(f), if it is to remain effective, must therefore be interpreted in a manner that is appropriate to the nature of the technology at issue.

For this reason, we find Microsoft's lock-and-key hypothetical, in which a single master key is sent abroad for mass replication, to be unpersuasive and irrelevant to this case. A lock-and-key assembly is a different type of technology from software, with different uses, such that its mode of mass production and consequent manner of supply abroad could very well be different from the way Microsoft conveniently hypothesizes it to be. While it is clear that a software manufacturer would want several million exact copies of a specific software program generated abroad for distribution, it is unclear why a lock-and-key manufacturer would want several million exact copies of a specific key made, as the point of having a lock-and-key assembly is to allow access control by a few keys. We prefer an interpretation of § 271(f) that is informed by actual industry practices, not by hypothetical scenarios that have no bearing on the technical realities of the invention at issue.

Finally, Microsoft's impassioned recitation of a parade of horribles that may befall the domestic software industry-such as the relocation of manufacturing facilities overseas-provides an insufficient basis for reaching a different result in this case. After all, the enactment of § 271(f) could have been similarly thought to result in the export of jobs, and Congress still enacted that provision. Moreover, possible loss of jobs in this country is not justification for misinter-

preting a statute to permit patent infringement. More importantly, however, "[i]t is enough that Congress intended that the language it enacted would be applied as we have applied it." *Griffin v. Oceanic Contractors, Inc.*, 458 U.S. 564, 576, 102 S.Ct. 3245, 73 L.Ed.2d 973 (1982). Therefore, "[t]he remedy for any dissatisfaction with the results in particular cases lies with Congress" and not with this court. *Id.*

We have considered Microsoft's other arguments and conclude that they are either unpersuasive or unnecessary for resolution of this appeal.

CONCLUSION

For the foregoing reasons, the judgment of the district court holding Microsoft liable under § 271(f) is

AFFIRMED.

RADER, Circuit Judge, dissenting.

This court today determines that supplying a single "component" of a patented invention from the United States gives rise to endless liability in the United States under § 271(f) for products manufactured entirely abroad. To my eyes, this judgment disregards the existing international scheme of patent law with potential consequences beyond a "parade of horribles [in] the domestic software industry." Therefore, although agreeing that software may be a component of a patented invention under § 271(f) and that electronic transmissions of software from the United States must receive the same treatment as software shipped from the United States on disks, I respectfully dissent from the proposition that foreign manufacture of a mere component of a patented product creates liability in the United States under § 271(f).

As noted by this court, section 271(f) imposes liability on anyone who "without authority supplies . . . from the United States . . . the components of a patented invention . . .

in such a manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent . . . ." Today's judgment turns on the meaning of "supplies." This court purports to construe that term according to its "ordinary, contemporary, common meaning." The ordinary meaning of "supplies," however, does not include "copying," "replicating," or "reproducing"—in effect "manufacturing." The act of supplying is separate and distinct from copying, reproducing, or manufacturing. Thus, this court provides extraterritorial expansion to U.S. law by punishing under U.S. law "copying" that occurs abroad. While copying in Düsseldorf or Tokyo may indeed constitute infringement, that infringement must find its remedy under German or Japanese law.

Each manufacture of a patented product constitutes a separate and distinct act of infringement. Microsoft "supplied" a master disc to New York, Düsseldorf, and Tokyo. The district court properly assessed damages against Microsoft under § 271(a) for each copy of the master manufactured and implemented into an infringing product in New York.[1] Similarly, section 271(f) attaches liability to each individual export from the United States of components of an incomplete invention for assembly abroad. As for manufacturing copies in Düsseldorf and Tokyo for the German and Japanese markets, those acts create liability only under German or Japanese law. Nonetheless, this court extends § 271(f) to cover extraterritorial copying in Düsseldorf and Tokyo. This extraterritorial expansion of U.S. patent law contravenes the

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[1] Microsoft might also be liable for supplying the master to Düsseldorf and Tokyo if copies made in those overseas locations are sold back into the U.S. market. *See* 35 U.S.C. § 271(a) & (c) (prohibiting importing into the United States patented inventions or components thereof).

precedent of this court and the Supreme Court that expressly confines the rights conferred by Title 35 to the United States and its Territories. *See Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 650, 35 S.Ct. 221, 59 L.Ed. 398 (1915) ("The right conferred by a patent under our law is confined to the United States and its Territories (Rev.Stat., § 4884) and infringement of this right cannot be predicated on acts wholly done in a foreign country." (citing *United Dictionary Co. v. G & C Merriam Co.*, 208 U.S. 260, 265, 28 S.Ct. 290, 52 L.Ed. 478 (1908))); *accord Int'l Rectifier Corp. v. Samsung Elecs. Co.*, 361 F.3d 1355, 1360 (Fed. Cir. 2004); *Pellegrini v. Analog Devices, Inc.*, 375 F.3d 1113, 1117 (Fed. Cir. 2004); *Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1251 (Fed. Cir. 2000); *see Waymark Corp. v. Porta Sys. Corp.*, 245 F.3d 1364, 1367-68 (Fed. Cir. 2001) (holding that liability under § 271(f) attaches with mere shipment of the component from the United States and does not consider the presence or absence of acts occurring abroad).

Again this extraterritorial expansion flows from this court's broad construction of "supplies." This court reasons that the "nature of the technology" justifies a different, unordinary, and uncommon construction of that term. Thus, this court distinguishes intangible software components from tangible components on the grounds that "the 'supplying' of software commonly involves generating a copy."

To the contrary, copying and supplying are separate acts with different consequences—particularly when the "supplying" occurs in the United States and the copying occurs in Düsseldorf or Tokyo. As a matter of logic, one cannot supply one hundred components of a patented invention without first making one hundred copies of the component, regardless of whether the components supplied are physical parts or intangible software. Thus, copying and supplying are different acts, and one act of "supplying" cannot give rise to liability for multiple acts of copying.

The court's proposition today that "the 'supplying' of software commonly involves generating a copy" does not actually distinguish software components from physical components of other patented inventions. The only true difference between making and supplying software components and physical components is that copies of software components are easier to make and transport. The ease of copying a patented component is not the proper basis for making distinctions under § 271(f).

Possibly recognizing defects in its reasoning, this court limits its novel uncommon construction of "supplies" to "*software 'components*,' [because for those inventions] the act of copying is subsumed in the act of 'supplying,' . . . ." Rather than "according the same treatment to all forms of invention," *Eolas Techs. Inc. v. Microsoft Corp.*, 399 F.3d 1325, 1339 (2005) (citing TRIPS Agreement, Part II, Section 5 (1994) ("Patents shall be available and patent rights enjoyable *without discrimination* as to the place of invention[ ][and] *the field of technology* . . . .") (emphases added)), this court creates a new rule that foreign copying of a component of a patented invention shipped from the U.S. gives rise to liability in the U.S. Apparently this rule applies only to software inventions. This application of "supplies" solely to software components ignores this court's case law that refuses to discriminate based on the field of technology. *Id.* The language of § 271(f) does not discriminate based on field or form of technology, yet this court invents such a distinction.

This court also declines to treat software the same as other inventions because a literal application of § 271(f) "fails to account for the realities of software distribution . . . and [this court] cannot disregard the nature of the relevant technology and business practices underlying a particular litigation." However, in *Pellegrini* an American corporation provided the instructions and corporate oversight that

"cause[d] the components of the patented invention to be supplied," but no part of the accused products ever entered or exited the United States. 375 F.3d at 1118. Thus, the production of the infringing products in Pellegrini was "*facilitated by acts in the United States*." Despite economic harm to the plaintiff and economic benefit to the defendant both in the United States, this court strictly construed § 271(f) to "appl[y] only where components of a patent[ed] invention are physically present in the United States and then either sold or exported . . . ." *Id.* at 1117. This court should exercise the same restraint demonstrated in *Pellegrini* by refusing to broaden § 271(f) to accommodate the "nature of the relevant technology and business practices underlying a particular litigation."

In fact, the "realities of software distribution" or "nature of the relevant technology and business practices" theory amounts to the following: "section 271(f) liability attaches if this court perceives that the patented component is cheaper or more convenient to replicate abroad than to ship from the United States." In sum, this "nature of the business" theory has no statutory support and may well not even be based on an accurate understanding of the nature of the software business.

Furthermore, this court's dismissal of *Pellegrini* because Microsoft supplied an actual component of the patented invention and not merely instructions as in *Pellegrini* does not reconcile the holding of *Pellegrini* with today's ruling. *Pellegrini* holds that "the language of § 271(f) clearly contemplates that there must be an intervening sale or exportation; there can be no liability under § 271(f) unless components are shipped from the United States for assembly." 375 F.3d at 1117. In the case before this court Düsseldorf and Tokyo distributors copy the components supplied from the United States and then install those copies into the infringing products. The German and Japanese manufacturers do not

install the actual component "supplied" from the U.S. (the master disc). Instead, they install a copy made in Düsseldorf or Tokyo. Thus, under *Pellegrini* liability cannot attach under § 271(f) because the components actually assembled into the infringing products were never literally "shipped from the United States." To my eyes, today's ruling departs from the holding of *Pellegrini*.

The majority also purports to construe § 271(f) to "comport with Congress'[s] motivation for enacting § 271(f)." Apart from the impossibility of divining Congressional intent divorced from the language of the law, this court's reasoning misses the policy behind § 271(f). Congress enacted § 271(f) in response to the Supreme Court's holding in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 92 S.Ct. 1700, 32 L.Ed.2d 273 (1972). *Deepsouth* held that making and shipping component parts of a patented combination invention did not constitute "making" the patented invention in the United States. *Id.* at 527-29, 92 S.Ct. 1700 ("We cannot endorse the view that the 'substantial manufacture of the constituent parts of a machine' constitutes direct infringement when we have so often held that a combination patent protects only against the operable assembly of the whole and not the manufacture of its parts."). Thus, because Deepsouth was not "making" the invention in the United States before exportation, there was no direct infringer in the United States to enable a charge of contributory infringement. *Id.* at 527, 92 S.Ct. 1700. *Deepsouth* let U.S. manufacturers escape infringement by making and exporting less than the complete patented invention. Section 271(f) closed that loophole by attaching liability to U.S. manufacturers for making and exporting components of the patented invention.

Nothing in § 271(f) or its enacting documents expresses an intent to attach liability to manufacturing activities occurring wholly abroad. This court's ruling, however, does exactly that: It holds Microsoft liable for the activities of *for-*

eign manufacturers making copies of the patented component abroad.

To the contrary, § 271(f) protects only components "supplied in or from the United States." This language limited § 271(f) to ensure it would not embrace manufacturing or copying activities occurring abroad. The "supplied in and from the United States" limitation would be wholly unnecessary, and indeed would contradict the intent of the law, if the law intended, as this court holds today, to regulate activities occurring in Düsseldorf or Tokyo. Had Congress intended to give extraterritorial effect to U.S. patent laws, it would have expressly stated so. Instead, Title 35 expressly limits liability under § 271(f) to activities occurring in the United States that result in the literal shipment of components "in or from the United States."

As a final refusal to confront the central issues of this case, the court today dismisses Microsoft's lock-and-key hypothetical as "irrelevant," as merely a scenario "without bearing on the technical realities." To the contrary, just as computers easily can make copies of software components of patented computer products, key replication machines easily can make copies of the key component of a patented lock product. A computer needs a master copy to replicate the software; similarly, a key replication machine needs a master copy to replicate the key. Thus, under a fair presentation of the hypothetical, a U.S. manufacturer supplies a single master key of a patented lock invention from the United States. Foreign manufacturers then copy that key for foreign sale as part of the patented lock product.[2] I doubt that the U.S.

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[2] The court's dismissal of the "key" hypothetical is easily addressed by adjusting the facts of the hypothetical. Consider a lock-and-key combination that recognizes the voice of the key's rightful owner. Only after confirming the identity of the owner does the

[Footnote continued on next page]

manufacturer who supplied the single master key would be liable under § 271(f) for the multiple infringing lock products manufactured and sold abroad. Yet this court creates liability under indistinguishable circumstances.

Other possible scenarios further highlight difficulties with this court's holding. For example, this court's holding would seem to impose liability under § 271(f) for foreign-manufactured copies on an individual who purchased a copy of AT & T's patented software and then shipped it overseas knowing that it would be copied and sold in Düsseldorf or Tokyo. The same problem might arise if the individual ships the purchased software to Düsseldorf with no intention of making further copies, but the Düsseldorf distributor of its own accord then makes and sells foreign copies. Before this opinion, the law would have suggested that AT & T would need to resort to German law and courts to determine any infringement for the copies manufactured and sold in Düsseldorf, but apparently this court purports to change that basic tenet of patent law.

This court reinforces one point several times, namely that its judgment reaches a just result by imposing liability for multiple infringing acts by foreign manufacturers on a U.S. "supplier" of a single patented component. This emphasis suggests that AT & T might otherwise have no remedy for infringement occurring wholly outside the United States. AT & T, however, is not left without remedy. AT & T can protect its foreign markets from foreign competitors by ob-

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lock expose the opening for the key and the key expose the teeth necessary to rotate the locking mechanism. Thus, each lock and key may have the same shape, thereby decreasing manufacturing costs, and yet allow access to a limited number of persons.

taining and enforcing foreign patents. Section 271(f) protects foreign markets from domestic competitors. Section 271(f) does not, or at least did not until today, protect foreign markets from foreign competitors. This court's expansion of § 271(f) to offer protection to foreign markets from foreign competitors distorts both the language and the policy of the statute. This court should accord proper respect to the clear language of the statute and to foreign patent regimes by limiting the application of § 271(f) to components literally "shipped from the United States." *Pellegrini*, 375 F.3d at 1117.

For the foregoing reasons, I must respectfully dissent.

APPENDIX B

United States District Court,
Southern District of New York.

AT & T CORP., Plaintiff,

v.

MICROSOFT CORPORATION, Defendant.

No. 01 Civ 4872(WHP).

March 5, 2004.

Jonathan G. Graves, Frank V. Pietrantonio, Brian M. Koide, Cooley Godward, LLP, Reston, VA, for Plaintiff.

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T. Andrew Culbert, Microsoft Corporation, Redmond, WA, for Defendant, of Counsel.

MEMORANDUM AND ORDER

PAULEY, J.

On June 4, 2001, plaintiff AT & T Corp. ("AT & T") filed this patent infringement action alleging that certain of defendant Microsoft Corporation's ("Microsoft") products containing speech codecs[1] infringe its United States Reissue Patent No. 32,580 (the "580 patent").[2] Currently before this Court is Microsoft's motion for partial summary judgment[3]

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[1] "A speech codec is a software program that is capable of coding—converting a speech signal into a more compact code—and decoding—converting the more compact code back into a signal that sounds like the original speech signal." Amended Complaint ("Am.Compl.") ¶ 14.

[2] Familiarity with this Court's prior Memoranda and Orders is presumed. *See, e.g.*, *AT & T Corp. v. Microsoft Corp.*, 01 Civ. 4872(WHP), 2003 WL 21459573 (S.D.N.Y. June 24, 2003) (construing claims in the 580 patent); *AT & T Corp. v. Microsoft Corp.*, 01 Civ. 4872(WHP) (S.D.N.Y. Sept. 3, 2003) (amending construction of the term "representative"); *AT & T Corp. v. Microsoft Corp.*, 290 F.Supp.2d 409 (S.D.N.Y. 2003) (granting partial summary judgment limiting damages pursuant to the patent marking statute, 35 U.S.C. § 287(a)); *AT & T Corp. v. Microsoft Corp.*, 01 Civ. 4872(WHP), 2004 WL 188078 (S.D.N.Y. Feb. 2, 2004) (granting partial summary judgment prohibiting Microsoft from asserting the defenses of equitable estoppel and implied license); *AT & T Corp. v. Microsoft Corp.*, 01 Civ. 4872(WHP), 2004 WL 232725 (S.D.N.Y. Feb. 9, 2004) (granting partial summary judgment prohibiting Microsoft from asserting the defense and counterclaim of inequitable conduct); *AT & T Corp. v. Microsoft Corp.*, 01 Civ. 4872(WHP), 2004 WL 292321 (S.D.N.Y. Feb. 17, 2004) (denying partial summary judgment on invalidity); *AT & T Corp. v. Microsoft Corp.*, 01 Civ. 4872(WHP), 2004 WL 309150 (S.D.N.Y. Feb. 19, 2004) (amending construction for term "excitation").

[3] Microsoft originally styled this motion as one *in limine* to exclude evidence of foreign sales. On March 4, 2004, the parties

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to exclude sales of goods incorporating foreign-replicated copies of its infringing Windows software[4] from any damages award, pursuant to 35 U.S.C. § 271(f). For the reasons set forth below, Microsoft's motion is denied.

This case presents a novel issue regarding the application of Section 271(f) with profound ramifications for Microsoft and other United States software manufacturers. In the end, the issue of liability under Section 271(f) for foreign replication of infringing software supplied from the United States is a question of law ripe for review by the Federal Circuit.

BACKGROUND

The facts underlying this motion are not in dispute, and are drawn from a Stipulated Statement of Facts, dated March 4, 2004, and marked as Court Exhibit 1. (Trial Tr. at 1064.) Microsoft conceives, writes, compiles, tests, debugs and creates a master version of its Windows operating system software in Redmond, Washington. Microsoft makes a limited number of "golden master" disks in the United States on which the machine-readable object code[5] for the Windows

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stipulated in open court to convert the motion to one for partial summary judgment. (Trial Transcript, dated March 4, 2004 ("Trial Tr .") at 1063-64.)

[4] For purposes of this motion only, this Court assumes that the object code and software at issue infringe AT & T's 580 patent.

[5] According to Microsoft Corporation, its software engineers develop a source code, which is the "human readable form of the software." The source code is put through a compiler which transforms it into object code. Object code is merely the "machine readable version" of the source code in the form of ones and zeros. The object code is then burned onto the golden master disk by a laser for easier transport abroad. (Transcript of Oral Argument,

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operating system software is stored. Some golden master disks are shipped abroad to foreign computer manufacturers, known as foreign "original equipment manufacturers," or "OEMs". Pursuant to licensing agreements with Microsoft, those foreign OEMs use the golden master disks to install foreign-replicated copies of the Windows operating system software onto foreign-assembled computers. While each OEM receives a single golden master disk, that disk is never installed on a computer sold to consumers. Instead, the golden master disk is used by the OEM to obtain and then replicate object code to install on foreign-assembled computers.

Microsoft also ships golden master disks to Microsoft-authorized foreign "replicators" who make copies of the Windows operating system software object code and ship those foreign-replicated copies to foreign computer manufacturers.

Additionally, Microsoft supplies its Windows operating system object code from the United States to certain foreign OEMs and authorized foreign replicators by sending them a single encrypted electronic transmission of the object code that was created in the United States. The foreign OEMs and replicators decrypt the transmission and install copies of the object code for the Windows operating system software onto computer hardware to form computer systems, and optionally create CDs or other media containing a foreign-replicated copy of the object code.

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dated December 12, 2003 ("Tr.") at 5-6.) *See also Microsoft Corp. v. Comm'r of Internal Revenue*, 311 F.3d 1178, 1181, 1187 (9th Cir. 2002) (describing golden masters).

During the time relevant to this action, the golden master disks and the encrypted electronic transmissions that Microsoft sends overseas included copies of the accused codecs that infringe AT & T's 580 patent. Microsoft acknowledges that it ships the golden masters and sends the encrypted electronic transmissions containing the infringing object code with the intent and knowledge that the software will be installed on foreign-manufactured computers. Microsoft further acknowledges that it ships the golden masters and encrypted electronic transmissions containing the infringing object code with the intent that the foreign OEMs and authorized replicators will make copies of the object code for the Windows operating system and install those copies onto computer hardware. This computer hardware is manufactured overseas and the completed systems containing the object code created in the United States are then sold to end-users overseas. The parties agree that, other than the object code contained on the golden master disks and the encrypted electronic transmissions of Windows object code, Microsoft does not supply any other "component" from the United States for assembly abroad. Additionally, Microsoft acknowledges that the copying of the software from the golden master disks and the encrypted electronic transmissions overseas is an essential part of the manufacturing process abroad for computers containing Windows. (Tr. at 9.)

AT & T alleges that Microsoft's foreign sales of its Windows software containing the allegedly infringing codecs constitute acts of infringement under 35 U.S.C. § 271(f) that trigger liability and damages. Microsoft contends that Section 271(f) does not attach liability to foreign-replicated copies of its object code because it falls outside the purview of Section 271(f)'s prohibition on foreign assembly of infringing goods. Specifically, Microsoft argues that the object code or software contained on the golden master disks is merely "intangible information," and thus not a "component" as contemplated by Section 271(f). Additionally, Microsoft

argues in its reply brief that Section 271(f) does not attach liability to foreign-replicated copies of the software or object code because the copies themselves are not "supplied from" the United States. Microsoft's arguments are without merit.

I. *Summary Judgment Standard*

Rule 56(c) of the Federal Rules of Civil Procedure provides that summary judgment "shall be rendered forthwith if the pleadings, depositions, answers to interrogatories and admissions on file, together with the affidavits, if any, show there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c); *accord Celotex Corp. v. Catrett*, 477 U.S. 317, 322, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 247, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986). The burden of demonstrating the absence of any genuine dispute as to a material fact rests with the moving party. *See, e.g., Adickes v. S.H. Kress & Co.*, 398 U.S. 144, 157, 90 S.Ct. 1598, 26 L.Ed.2d 142 (1970); *Grady v. Affiliated Cent., Inc.*, 130 F.3d 553, 559 (2d Cir. 1997). The movant may meet this burden by demonstrating a lack of evidence to support the nonmovant's case on a material issue on which the nonmovant has the burden of proof. *Celotex*, 477 U.S. at 323.

To defeat a summary judgment motion, the nonmoving party must do "more than simply show that there is some metaphysical doubt as to the material facts." *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 586, 106 S.Ct. 1348, 89 L.Ed.2d 538 (1986). Indeed, the nonmoving party must "set forth specific facts showing that there is a genuine issue for trial." Fed. R. Civ. P. 56(e); *accord Matsushita Elec.*, 475 U.S. at 587. In evaluating the record to determine whether there is a genuine issue as to any material fact, the "evidence of the nonmovant is to be believed and all justifiable inferences are to be drawn in his favor." *Liberty*

Lobby, 477 U.S. at 255; *accord Schering Corp. v. Geneva Pharms.*, 339 F.3d 1373, 1377 (Fed. Cir. 2003).

II. *Section 271(f) of the Patent Act*

Section 271(f) of the Patent Act was enacted to prevent infringers from escaping liability under United States patent law by manufacturing or supplying a component of a patented invention from the United States and exporting it for combination into an end product overseas. *Imagexpo, L.L.C. v. Microsoft Corp.*, No. Civ. A. 3:02CV751, 2003 WL 23147556, at *1 (E.D. Va. Aug. 19, 2003); *accord* 35 U.S.C. § 271(f); *Aerogroup Int'l, Inc. v. Marlboro Footworks, Ltd.*, 955 F.Supp. 220, 232 (S.D.N.Y. 1997) (citing *Windsurfing Int'l, Inc. v. Fred Ostermann GmbH*, 668 F.Supp. 812, 820-21 (S.D.N.Y. 1987), *aff'd*, 1 F.3d 1214 (Fed.Cir.1993)); H.R. 6286, Patent Law Amendments Act of 1984, Congressional Record, Oct. 1, 1984, 28069 at H10525-6 ("Legislative History") (Section 271(f) "prevent[s] copiers from avoiding U.S. patents by supplying components of a patented product in this country so that the assembly of the components may be completed abroad."). Components supplied from foreign countries and incorporated into foreign-assembled products do not implicate Section 271(f). *Aerogroup Int'l*, 955 F.Supp. at 232. Section 271(f) states:

> (1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

> (2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

35 U.S.C. § 271(f).

Under paragraph (1) components may be staple articles or commodities of commerce which are also suitable for substantial non-infringing use, but under paragraph (2) the components must be especially made or adapted for use in the invention. *See Bristol-Myers Squibb v. Rhone-Poulenc Rorer, Inc.*, 95 Civ. 8833 (RPP), 2001 WL 1263299, at *4-5 (S.D.N.Y. Oct. 19, 2001). Additionally, paragraph (2) requires the infringer to have an intent that a component "will be combined outside of the United States in a manner that would infringe if the combination occurred within the United States." 35 U.S.C. § 271(f)(2). "Actual combination or assembly of the components by the alleged infringer [is] not required" to trigger liability under Section 271(f). *Waymark Corp. v. Porta Sys. Corp.*, 334 F.3d 1358, 1361 (Fed. Cir. 2003). Here, it is undisputed that Microsoft's object code is especially made and supplied from the United States for use in its Windows operating system, that Microsoft intended the components to be combined outside of the United States, and that Microsoft intended that the infringing object code be di-

rectly incorporated as an essential part of the foreign-manufactured computers. (Court Ex. 1; Tr. at 9.)

Congress enacted Section 271(f) in response to *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 92 S.Ct. 1700, 32 L.Ed.2d 273 (1972), where the Supreme Court recognized a "loophole" in infringement law allowing copiers to escape liability by finalizing assembly of products outside the United States. *See* H.R. 6286, Patent Law Amendments Act of 1984, Congressional Record, Oct. 1, 1984, 28069, H10525-6. In *Deepsouth*, the Supreme Court held that manufacturing components of a patented invention in the United States, but assembling those components into the patented invention outside the United States, was not "making," and thus did not constitute infringement under Section 271(a) of the Patent Act. 406 U.S. at 527-28. In the wake of *Deepsouth*, Congress enacted Section 271(f) to prevent infringers from exploiting that loophole. *See* H.R. 6286, Patent Law Amendments Act of 1984, Congressional Record, Oct. 1, 1984, 28069, H10525-6. The legislative history of Section 271(f) reads in pertinent part:

Part of the subcommittee's job is to secure for the owners of intellectual property, including patent holders, a workable, efficient, and vigorous set of laws to protect their creations. . . . [W]ithout enactment of these housekeeping-oriented measures, *the patent system would not be responsive to the challenges of a changing world* and the public would not benefit from the release of creative genius. . . . Section 101 [of the Bill] makes two major changes in the patent law in order to avoid encouraging manufacturing outside the United States . . . . [Section 271(f)] will prevent *copiers* from avoiding U.S. patents by supplying components of a patented product in this country so that the assembly of the components may be completed abroad. This proposal responds to [*Deepsouth*] concerning the need for a legislative solution to close a loophole in patent law.

H.R. 6286, Patent Law Amendments Act of 1984, Congressional Record, Oct. 1, 1984, 28069, H10525 (emphasis added).

Section 271(f) bridges the *Deepsouth* synapse by including as infringement under the Patent Act the assembly of any component of a patented invention, supplied from the United States, into a product assembled outside of the United States. 35 U.S.C. § 271(f). Microsoft does not dispute the construction of Section 271(f), but argues that: (1) its object code or software is not a "component" under Section 271(f); and (2) its foreign-replicated copies are not "supplied from" the United States. Otherwise, Microsoft acknowledges that its actions satisfy the requirements of Section 271(f). (Court Ex. 1.)

III. *Software as a Component*

Microsoft argues that foreign-replicated copies of its Windows operating system software cannot be statutory "components" supplied from the United States to form foreign-assembled computer systems because "the infringing Windows operating system software stored on the golden master disks [and sent electronically] is intangible information," and the golden master disk is "simply a medium for transmission of the software information," and is never incorporated into an end product abroad. (MS Br. at 1; Court Ex. 1.) The object code or software that is contained on each golden master disk or transmitted electronically, as opposed to the golden master disk or method of encrypted transmission itself, is at the heart of the parties' dispute and this Court's analysis. It is undisputed that the infringing software is intentionally shipped abroad for incorporation into foreign-assembled computers. (Court Ex. 1.) Indeed, the golden master disk simply recognizes the economic efficiencies in shipping Microsoft's software abroad, and does not alone insulate Microsoft from liability under Section 271(f). *See*

Eolas Techs. Inc. v. Microsoft Corp., 99 C0626, 2004 WL 170334, at *3-5 (N.D. Ill. Jan. 15, 2004).

Microsoft argues that its infringing software must be a "physical product" to constitute a "component" under Section 271(f). As noted, Section 271(f) precludes exportation of certain "component(s)" of patented inventions. 35 U.S.C. § 271(f). Microsoft contends that infringing software transported by golden master disk or through electronic transmission is merely "intangible information," and thus not a "component" as contemplated by Section 271(f). It is well-established, however, that software can be a component of a patented invention or infringing device. *See, e.g., In re Alappat*, 33 F.3d 1526, 1545 (Fed. Cir. 1994) ("[A] computer operating pursuant to software may represent patentable subject matter, provided, of course, that the claimed subject matter meets all the other requirements of Title 35."); *Imagexpo, L.L.C. v. Microsoft Corp.*, No. Civ. A 3:02CV751, 2003 WL 23147556 (E.D. Va. Aug. 19, 2003) (in examining Microsoft NetMeeting units exported overseas on golden master disks, holding that Microsoft's "code is a patentable apparatus" and that the golden master and code constitute "components" under Section 271(f)); *Eolas Techs. Inc. v. Microsoft Corp.*, 274 F.Supp.2d 972, 973 (N.D. Ill. 2003) (holding that the software in a computer product "is, in law, the legal equivalent of a piece of computer hardware and not the legal equivalent of a chemical formula"); *NTP, Inc. v. Research In Motion, Ltd.*, 261 F.Supp.2d 423, 431 (E.D. Va. 2002) (noting that defendant supplied "application programs" that are "components combined with [an] Intel processor outside the United States" and especially adapted for use in the infringing product); United States Patent & Trademark Office Manual of Patent Examining Procedure (the "MPEP") § 2106, at 2100-13 (8th ed.2003) (noting that a computer program has functional and structural elements, can be recited as part of a claim, statutory manufacture or machine, and noting that "[w]hen a computer program is recited in conjunction with a

physical structure, such as a computer memory, Office personnel should treat the claim as a *product* claim.") (emphasis added); *see also Southwest Software, Inc. v. Harlequin Inc.*, 226 F.3d 1280, 1287-88, 1298-99 (Fed. Cir. 2000). Indeed, Microsoft acknowledges that software is patentable (Tr. at 10; MS Reply at 1), and it argued successfully to the Ninth Circuit that its golden master disks that contain the object code at issue here were tangible export property for tax purposes. *Microsoft Corp. v. Comm'r of Internal Revenue*, 311 F.3d 1178, 1185 (9th Cir. 2002) (holding that the software or object code contained on the golden master disks was "export property," that only contemplates tangible property, and finding "computer software reproductions similar to 'films, tapes, [and] records'") (alteration in original). Tellingly, Microsoft retreated from this argument in its reply brief and at oral argument.

Microsoft urges this Court to narrowly interpret the term "component" in Section 271(f) to exclude software or object code. However, there is no limitation of the term "components," either in the statutory text or in the legislative history, to machines or other structural combinations. *W.R. Grace & Co. v. Intercat, Inc.*, 60 F.Supp.2d 316, 320-21 (D. Del. 1999) (finding 271(f) liability for supply of chemical composition from the United States for combination with other materials abroad); *see also Moore U.S.A. Inc. v. Standard Register Co.*, 144 F.Supp.2d 188, 195 (W.D.N.Y. 2001) (finding paper, glue and blueprints for making envelopes "components" under 271(f)); *Lubrizol Corp. v. Exxon Corp.*, 696 F.Supp. 302, 325 (N.D. Ohio 1988) (same for supply of lubricant additive for combination in a lubricant composition outside the United States). Further, there is nothing in the legislative history of Section 271(f) or in any jurisprudence interpreting it to say that software cannot be a component under Section 271(f). *W.R. Grace*, 60 F.Supp.2d at 321 ("A contrary holding . . . would be tantamount to legislating additional language to a statute."). Indeed, excluding protection

for inventions using software "would not be responsive to the challenges of a changing world," as software and computers have become an essential part of society and business since the enactment of Section 271(f). H.R. 6286, Patent Law Amendments Act of 1984, Congressional Record, Oct. 1, 1984, 28069, H10525.

Microsoft cites to several cases in support of its contention that software cannot be a component under Section 271(f). (MS Br. at 9-10.) Those cases are distinguishable, as they all involve design or method patents, which have no components, or instructions for assembly of products abroad, which is not a component. *See, e.g., Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 953 F.2d 1360, 1374 (Fed. Cir. 1991) (holding 271(f) inapplicable to a method patent for producing asphalt, "not the apparatus for implementing that process"); *Enpat, Inc. v. Microsoft Corp.*, 6 F.Supp.2d 537, 538-39 (E.D. Va. 1998) (finding no 271(f) liability for a method patent with no components where the patent only described steps required to accomplish a task); *Pellegrini v. Analog Devices, Inc.*, C.A. No. 02-11562-RWZ, 2003 WL 21026797, at *1 (D. Mass. May 7, 2003) (finding no 271(f) liability for exportation of instruction for foreign disposal of computer chips); *Aerogroup Int'l*, 955 F.Supp. at 231-32 (Section 271(f) inapplicable for a design patent for a shoe sole where the patent claimed no "components" and the soles were manufactured abroad).

Notably, the two other courts that have considered the precise issue before this Court have held that Microsoft's export of its golden master disks containing infringing code constitutes the supply of a "component" under Section 271(f). *Eolas Techs. Inc. v. Microsoft Corp.*, 274 F.Supp.2d 972 (N.D. Ill. 2003), *reconsideration denied*, 2004 WL 170334, at *3-5 (N.D. Ill. Jan. 15, 2004); *Imagexpo LLC v. Microsoft Corp.*, 2003 WL 23147556 (E.D. Va. Aug. 19, 2003). Additionally, in *NTP, Inc. v. Research in Motion,*

Ltd., 261 F.Supp.2d 423, 436-37 (E.D. Va. 2002), a district court granted summary judgment of infringement pursuant to Section 271(f), finding that the defendant's transmission network for its Blackberry wireless email/paging devices manufactured in Canada fell within Section 271(f) because it incorporated domestically-supplied components, such as Microsoft's Exchange Server software, that the defendant combined outside the United States. Microsoft only distinguishes these cases by noting that they were decided before *Bayer AG v. Housey Pharms., Inc.*, 340 F.3d 1367 (Fed. Cir. 2003). (Tr. at 18; MS Reply Br. at 6.)

Microsoft argues that *Bayer* compels a finding that it is not liable for infringement and damages for foreign sales of computers containing the infringing software. In *Bayer*, the Federal Circuit addressed the term "component" in Section 271(g) of the Patent Act. *Bayer*, 340 F.3d at 1376-77. Section 271(g) prohibits importation into the United States of products produced by "patented manufacturing processes, i.e., methods of actually making or creating a product as opposed to methods of gathering information about, or identifying a substance worthy of further development." *Bayer*, 340 F.3d at 1370. In dicta, the Federal Circuit stated that the term "component" in Section 271(g) "appears to contemplate a physical product." *Bayer*, 340 F.3d at 1376-77. However, Microsoft wrenches the Federal Circuit's comment out of its context; it is not the clear statement of law on Section 271(f) liability that Microsoft would have this Court adopt.

In *Bayer*, the Federal Circuit held that Section 271(g) does not proscribe the transmission of "information" into the United States. 340 F.3d at 1371. The "information" in *Bayer*, however, was markedly different than the software or object code at issue here. The information in *Bayer* was data generated from a patented method to identify whether a given substance had a particular property, namely, whether that substance activated or inhibited protein activity in a cell.

Bayer, 340 F.3d at 1369. This data could be used to identify effective drugs for treating diseases. The patentee alleged that Bayer used the patented process outside the United States, subsequently imported into the United States *the data generated from that process*, identified effective drugs from that data, and manufactured those drugs in the United States. *Bayer*, 340 F.3d at 1369-70. The Federal Circuit held that importation of the data generated from the patented process did not infringe under Section 271(g) because that Section is directed towards articles of manufacture, and not data or "information" used to identify those articles. *Bayer*, 340 F.3d at 1370. Indeed, the data produced from the patented process abroad was not directly used to manufacture the drugs at issue in the United States. *Bayer*, 340 F.3d at 1369-70.

Bayer's holding does not advance this Section 271(f) analysis because: (1) *Bayer* only applies to Section 271(g);[6] and (2) the "information" or "data processing" that resulted from a patented process in *Bayer* is completely unrelated to the software or object code at issue here. For example, here the software or object code itself is an essential part of the end product and component-assembly abroad. In contrast, in *Bayer* the resulting data created by a patented process was transferred to the United States from abroad and was ultimately used to identify drugs which were then manufactured in the United States. *Bayer*, 340 F.3d at 1368-69. Thus, in *Bayer*, the transmitted "data" at issue was not incorporated into the end-product; it was the result of a patented process, not part of it. In this action, the object code at issue actually contains the patented codecs, which are not derived from a

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[6] Indeed, the only mention of Section 271(f) in *Bayer* is a passing reference to Congress's intent to avoid encouragement of manufacturing infringing goods outside the United States. *Bayer*, 340 F.3d at 1371.

similar method patent, and the infringing code is sent overseas to be incorporated directly into the end-product abroad.

Citing the dicta in *Bayer*, Microsoft argues that the object code contained on the golden master is intangible information, and thus cannot trigger liability under Section 271(f). Microsoft's argument, however, relies heavily on the presumption that the object code on the golden master disks and in the encrypted transmissions is the type of intangible information or data from a patented process that did not trigger Section 271(g) liability in *Bayer*. As noted above, this Court rejects that presumption.

IV. *Foreign-Replicated Copy as a Component*

In its reply brief, Microsoft advances the argument that a foreign-replicated copy of the infringing software does not constitute a "component" supplied from the United States, and thus cannot trigger Section 271(f) liability. This Court heard AT & T's response at oral argument, and agrees with its position.

Microsoft contends that since the object code eventually incorporated into the foreign computers is *replicated abroad*, those foreign-replicated copies cannot be considered to be a component "supplied from" the United States. Specifically, Microsoft argues that the foreign-replicated copies cannot "be said to have been 'supplied' from the U.S. even though they never touched U.S. soil." (MS Reply Br. at 1.) Essentially, Microsoft seeks to equate replication of the object code abroad with the manufacturing or "supply" of it from abroad. Microsoft's argument ignores the undisputed fact that the object code is originally manufactured in the United States, and supplied from the United States to foreign replicators or OEMs with the intention of incorporating such software into foreign-assembled computers. (Court Ex. 1.) The fact that Microsoft ships one golden master disk or sends one electronic transmission with the infringing object code to each foreign OEM, rather than shipping one CD for each computer

for efficiency purposes, cannot shield Microsoft from the letter and intent of the statute—to prohibit circumvention of infringement of a United States patent by supplying certain infringing components from the United States, and shipping them abroad for incorporation into a finished product that would infringe if assembled in the United States.[7] *See* 35 U.S.C. 271(f); H.R. 6286, Patent Law Amendments Act of 1984, Congressional Record, Oct. 1, 1984, 28069, H10525; *Imagexpo*, 2003 WL 23147556; *Eolas Techs.*, 2004 WL 170334, at *3-5.

In support of its argument, Microsoft analogizes its software to a "mold" for tires that is exported to a foreign plant to make tires there for combination with foreign-made cars. Microsoft argues that its software, like the foreign-molded tires, cannot be said to be components of the patented combination "supplied" from the United States because Section 271(f) looks to the place from which the "component" in question was made and supplied. Unlike the tires that are manufactured from a mold, however, the software here has already been manufactured in, and supplied from, the United States and is only copied abroad—the software is not a mold for the creation of another separate type of component. Indeed, there is no evidence before this Court that the foreign-incorporated object code or software is being created anew from instructions concerning a process for creating code abroad. *See Enpat*, 6 F.Supp.2d at 538-39 (finding no 271(f) liability for a method patent with no components where the

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[7] Indeed, at oral argument, Microsoft acknowledged that if individual disks with the infringing Windows operating system object code were sent abroad for incorporation into each foreign-assembled computer (rather than one golden master disk), Microsoft would be liable for infringement under Section 271(f). (Tr. at 16, 28.) Under this scenario, Microsoft would be liable for direct infringement under Section 271(f). *NTP*, 261 F.Supp.2d at 436-37.

patent only described steps required to accomplish a task); *Pellegrini*, 2003 WL 21026797, at *1 (finding no 271(f) liability for exportation of instruction for foreign disposal of computer chips). Further, Microsoft's tire mold is devoid of any content until rubber is poured into it and a separate and distinct object, a tire, is created. Here, again, the software itself is the component, or the "tire", rather than a mold.

As noted in *Imagexpo*, the golden master or electronic transmission at issue here contains object code that becomes an essential component of the finished computer product. "In other words, the overseas replicator [or OEMs] do[ ] not simply construct the computer product using a plan, design, or recipe supplied by Microsoft. Instead, the functional nucleus of the finished computer product is driven by the code, which is transmitted through the golden master." *Imagexpo*, 2003 WL 23147556. This Court agrees and finds Microsoft's "tire mold" analogy unpersuasive.

V. *Policy Argument*

Finally, Microsoft advances a "doomsday" policy argument to buttress its position, namely that if Section 271(f) liability attaches to foreign distribution of its infringing software, it "would simply pick up [its] manufacturing operation for the golden master, go [one] hundred miles north to Vancouver, set up the operation in Vancouver, [and] burn [its] golden master CDs [there]." (Tr. at 21-22.) Microsoft asserts that this would be the only option to "reduce by two-thirds our exposure in all of these patent cases" relating to Section 271(f) liability for worldwide sales.[8] (Tr. at 22.) Additionally, Microsoft complains that, unlike United States-based companies, foreign software companies do not face

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[8] Notably, Microsoft's policy argument does not address distribution of the infringing software through electronic transmission.

Section 271(f) liability, and can sell software world-wide without incurring the same liability in the United States. (Tr. at 22.) While this Court appreciates Microsoft's concerns about a paradigm shift for United States software manufacturers, those concerns are better addressed through manufacture of non-infringing goods or Congressional action, rather than a judicial engraftment on Section 271(f) of the Patent Act.

CONCLUSION

For the reasons set forth above, defendant Microsoft Corporation's motion for partial summary judgment pursuant to 35 U.S.C. § 271(f) is denied.

APPENDIX C

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

04-1285

AT&T Corp.,

Plaintiff-Appellee,

v.

MICROSOFT CORPORATION,

Defendant-Appellant.

ORDER

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

A petition for rehearing en banc having been filed by the APPELLANT, and a response thereto having been invited by the court and filed by the APPELLEE, and the matter having first been referred as a petition for rehearing to the panel that heard the appeal, and thereafter the petition for rehearing en banc and response having been referred to the circuit judges who are in regular active service,*

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on October 27, 2005.

Circuit Judge GAJARSA did not participate in the vote.

FOR THE COURT,

/s/
Jan Horbaly
Clerk

Dated: October 20, 2005

cc: Dale M. Heist
Stephen C Neal
John D. Vandenberg, Frank Scherkenbach
Janine A. Carlan

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(DCT - 01-CV-4872)

* Two amicus curiae briefs were filed and circulated.

Note: Pursuant to Fed. Cir. R. 47.6, this order is not citable as precedent. It is a public record.

APPENDIX D

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

AT&T Corp. Plaintiff, v. MICROSOFT CORPORATION Defendant.	01 Civ. 4872 (WHP) STIPULATED JUDGMENT

On June 4, 2001, plaintiff AT&T Corp. ("AT&T") filed this patent infringement action alleging that certain of defendant Microsoft Corporation's ("Microsoft") products containing speech codecs infringe its United States Reissue Patent No. 32,580 (the "580 patent"). The parties have now reached a settlement pursuant to which they have agreed to the entry of judgment based on the record and the stipulated facts as set forth in Court's Exhibit 1, and have also agreed that neither party would appeal any issue with one exception: both parties intend that Microsoft will reserve one issue for appeal, namely this Court's ruling with respect to Microsoft's liability under 35 U.S.C. § 271(f).

WHEREAS, the Parties have agreed and hereby stipulate, by and through their counsel of record herein, that judgment be entered in favor of AT&T and against Microsoft as follows:

IT IS HEREBY ORDERED, ADJUDGED and DECREED THAT, final judgment shall be entered in favor of AT&T and against Microsoft as follows:

1. U.S. Patent Number Reissue 32,580 (the '580 patent) has been infringed under 35 U.S.C. § 271(a) and (b), is enforceable and not invalid. The parties have agreed to an unconditional settlement payment based upon this ruling.

2. AT&T's infringement claim under 35 U.S.C. § 271(c) is dismissed without prejudice.

3. All of Microsoft's counterclaims are hereby dismissed with prejudice.

4. Based on the stipulated facts, the Court has determined that the golden master disks and the encrypted transmissions of Windows object code contain "components" supplied from the United States by Microsoft within the meaning of 35 U.S.C. § 271(f) and the Court has further determined that the computer systems assembled abroad with the foreign-replicated Windows object code that was installed from the golden master disks or the encrypted transmissions contain "components" that were supplied by Microsoft from the United States.

5. Based on the Court's determinations set forth in its opinion of March 5, 2004, and hereby adopted by the Court in this final judgment, Microsoft concedes that it has infringed under 35 U.S.C. § 271(f). The parties have agreed upon an additional settlement payment conditioned upon a final appellate determination affirming this Court's ruling under 35 U.S.C.

§ 271(f). Accordingly, the Court hereby enters judgment in favor of AT&T and against Microsoft on AT&T's claims pursuant to 35 U.S.C. § 271(f).

6. The parties intend that Microsoft shall have the right to appeal the Court's determination and the judgment of infringement under 35 U.S.C. § 271(f) entered herewith.

7. This Court shall retain jurisdiction to enforce the terms of the Settlement Agreement between the Parties;

8. The Clerk of the Court is directed to enter the foregoing stipulated judgment as the final judgment in this case.

9. Each party shall bear its own costs and attorneys fees.

DATED: March 5, 2004
New York, New York

/s/
William H. Pauley III, District Judge

/s/
Stephen C. Neal, Esq., Cooley Godward LLP
Counsel for AT&T CORP.

/s/
Dale M. Heist, Esq., Woodcock Washburn LLP
Counsel for MICROSOFT CORPORATION

APPENDIX E

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

AT&T Corp. Plaintiff, v. MICROSOFT CORPORATION Defendant.	01 Civ. 4872 (WHP) STIPULATED STATEMENT OF FACTS CONCERNING 35 U.S.C. § 271(F)

COURT'S EXHIBIT 1

The parties hereby stipulate to the following facts concerning the issue of infringement pursuant to 35 U.S.C. § 271(f):

1. Plaintiff AT&T Corp. ("AT&T") owns all right, title, and interest in and to United States Patent Number Reissue 32,580 entitled "Digital Speech Coder" (the "'580 Patent");
2. On June 4, 2001, AT&T filed a complaint against defendant Microsoft Corporation ("Microsoft") in

the United States District Court for the Southern District of New York ("District Court"), seeking a judgment that Microsoft has infringed the '580 Patent under 35 U.S.C. § 271 and seeking damages for such infringement (the "Dispute");

3. AT&T has alleged that Microsoft's foreign sales constitute acts of infringement under 35 U.S.C. § 271(f) and the District Court has entered summary judgment that Microsoft's foreign sales are subject to liability in accordance with AT&T's allegation (the "271(f) Ruling");

4. Microsoft conceives, writes, compiles, tests, debugs and creates a master version of its Windows operating system software in Redmond, Washington. Microsoft makes a limited number of "golden master" disks in the United States on which the machine-readable object code for the Windows operating system software is stored;

5. Some golden master disks are shipped abroad to foreign computer manufacturers, known as foreign "original equipment manufacturers" or "OEMs." Pursuant to licensing agreements with Microsoft, those foreign OEMs use the golden master disks to install the foreign-made copies of Windows operating system software onto computers. Each OEM receives a single golden master disk, and that disk itself is never installed on a computer that is then sold. Instead, that golden master disk is used by the OEM to obtain and then replicate object code that is then installed on computers that are sold;

6. Microsoft also ships golden master disks to Microsoft authorized foreign "replicators" who make copies of the Windows operating system software object code and ship those foreign manufactured copies to foreign computer manufacturers;

7. Microsoft also supplies its Windows operating system object code from the United States to certain foreign OEMs and authorized foreign replicators by sending to foreign OEMs or replicators a single encrypted transmission of the object code. The foreign OEMs and replicators decrypt the transmission and install copies of the object code for the Windows operating system software onto computer hardware, to form computer systems, and optionally create CDs or other media with a copy of the same;

8. During the time relevant for this lawsuit, the golden master disks that Microsoft shipped overseas and foreign electronic transmissions included copies of the codecs that AT&T accused of infringing the '580 patent;

9. Microsoft intends that the foreign OEMs and authorized replicators make the copies of the object code for the Windows operating system (created from the golden master disks and/or electronically transmitted software code) and Microsoft further intends that the foreign OEMs and authorized replicators install those copies onto computer hardware. This computer hardware is manufactured overseas; the computer systems are assembled and the completed systems are then sold to end-users overseas.

10. AT&T alleges, and Microsoft disputes, that the "golden master disks" and the encrypted transmissions of Windows object code constitute "components" within the meaning of 35 U.S.C. 271(f). AT&T alleges, and Microsoft disputes, that the computer systems assembled abroad with the foreign replicated object code contain "components" that were supplied by Microsoft from the United States. In a ruling announced on February 17, 2004, the District Court ruled in favor of AT&T on this is-

sue. The parties agree that, other than the "golden master disks" and the encrypted transmissions of Windows object code, Microsoft does not supply any "component" from the United States for assembly abroad.

11. The District Court ruled in favor of AT&T on all 271(f) issues in an opinion dated March 5th, 2004.

AT&T and Microsoft have entered into a confidential settlement agreement pursuant to which Microsoft has agreed to pay damages to AT&T in connection with AT&T's allegations that Microsoft's United States sales infringe the '580 patent. The settlement agreement obligates Microsoft to make an additional payment of damages to AT&T in the event that the District Court's 271(f) ruling is affirmed on appeal.

/s/
William H. Pauley III, District Judge

/s/
AT&T Corp.

/s/
MICROSOFT CORPORATION